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ABSTRACT

Part of a series which offers educational resources and teaching techniques related to major social issues to high school social studies classroom teachers, the guide focuses on government regulation. The document is presented in four major chapters. Chapter I explores how economic and political science frameworks can be used to analyze policy issues. Chapter II presents an overview of the relationship between the economy and government regulation. Topics discussed include the economic rationale for regulation, control of natural monopolies, prevention of destructive competition, protection of sellers and consumers, regulatory processes, and evaluation of regulatory policy. Chapter IV presents instructional activities which involve students in identifying and describing problems involving governmental regulatory action, class discussion, participating in small group tasks, compiling master lists of alternative costs and benefits of various regulatory actions, preparing position papers, and analyzing films. For each activity, information is presented on grade level, sequence within the unit, time and material required, rationale, concepts, instructional objectives, teaching strategies, and pupil activities. Student readings, bibliographic suggestions, and illustrative material such as advertisements are included in the unit. (DB)

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ED173255

ECONOMICS-POLITICAL SCIENCE SERIES (EPS)

Analyzing Government Regulation

A Resource Guide

U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION

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Joint Council on Economic Education

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Foreword

Economics-Political Science Project

Although by its very name the Joint Council on Economic Education is obviously committed to improving the teaching of economics, it has developed this Economics-Political Science Series as a contribution to the teaching of the broad social studies field. We believe that each publication will enable teachers to achieve multiple purposes which rank high among the goals for the social studies, and the production procedure for the series demonstrates effective steps and use of personnel to develop social studies instructional materials.

The series is an outgrowth of the Economics-Political Science Project which was undertaken in 1973. The project came into being from a recognition that most social issues were becoming increasingly complex and multidimensional and yet social studies teachers were generally unprepared to handle the teaching of such issues. As a result, students were not being prepared to understand and act upon crucial matters either through default or ineptitude on the part of their teachers. The J. M. Foundation had a strong commitment for many years to improve the quality of our nation's citizenship education and it provided the JCEE with the initial grant to launch the Economics-Political Science Project.

The core of JCEE strategy was to draw heavily from the experiences and judgments of outstanding social studies teachers in diagnosing what needed to be done and how to do it. The major program recommended to lay a foundation for the project was to conduct a national workshop in which strategic social studies teachers could be prepared to teach complex, multidimensional social issues effectively. With this experience as a beginning, it was anticipated that comparable training programs could be provided within states for other teachers. Furthermore, the experience of the national workshop could be used to establish a basis for developing materials for teaching the social issues.

As a preliminary step, pilot programs were held for social studies teachers in North Carolina and Oregon to gain experience and advice regarding the purposes, personnel, content, materials and procedures for the national workshop. Among the key recommendations which emerged were the following: (1) participants should include outstanding high school teachers with backgrounds in economics and political science; (2) the workshop should focus on the analysis of major social issues that involve economics and political science; (3) the workshop should focus also on the techniques and resources for teaching the social issues selected; (4) the staff should include personnel capable of providing the essentials of economics and political science, an analysis of the social issues drawing upon and interrelating the pertinent economics and political science, and leadership in demonstrating

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and developing teaching techniques and materials; and (5) the entire workshop should be conducted in an exemplary manner so as to serve as a model for workshops to be held in the future within states and school districts.

The National Economics-Political Science Project Workshop was conducted during the summer of 1974 at Haverford College, using the adjacent city of Philadelphia as a resource for realistically relating the social issues being analyzed. Attending were teams of high school social studies teachers from 36 states who had been selected carefully by Affiliated Councils on Economic Education in those states. Evaluations of the Workshop reflected that the purposes were achieved to a very high degree.

During the following year mini-workshops dealing with social issues were conducted for social studies teachers in five regions of the nation. These programs were patterned after the national workshop and made use of teachers and materials from that workshop. Funds for the national workshop and the regional programs were provided by the J. M. Foundation, Exxon Corporation (USA), and the Lilly Foundation.

It was at this stage that the Economics-Political Science Project turned to the production of teaching materials. With continuing grants from the J. M. Foundation and Exxon Corporation (USA), the JCEE employed four writing teams to develop resource units for teaching major social issues. The resource units were to be designed to teach the social issues analytically, integrating economics and political science in the process, and they were to provide diverse examples and suggestions of units, methods, and resources for classroom use. In order to achieve these aims, each team consisted of an economist, political scientist, two social studies teachers, and a social studies curriculum specialist. Team members had demonstrated their abilities in various phases of the Economics-Political Science Project.

The writing teams were convened by the JCEE for an intensive planning seminar in August 1975 and, drawing upon the experiences and output of the national and regional workshops, they developed the focus, format, and procedures for the Economics-Political Science Series.

It was agreed that resource guides were to be developed for analyzing the following: Health Care Policy; Taxation Policy; Economic Stabilization Policy; Government Regulation; Environmental Policy; Housing Policy; and Crime Control and Prevention Policy.

Each resource guide was to contain the following elements: (1) a delineation of the core concepts of economics and political science and their interrelationships; (2) a Topic Overview providing background information for teachers and an in-depth economic-political science analysis of the problem area on which the guide focuses; (3) a statement of the rationale and significance of the problem area, emphasizing its present and potential place in the lives of students; (4) an identification of the objectives and outcomes from study of the problem area; (5) diverse examples of classroom activities, each designed to achieve one or more of the objectives.

Another major decision reached at that time was that there should be extensive exchange, review and testing throughout the developmental process. All the economists and political scientists would react to each other's analyses and they would also receive reactions and suggestions from the high school social studies teachers. The economists and political scientists would review the content of the methodology prepared by the high school teachers and the teachers would exchange their materials among themselves. Beyond all of this and of crucial importance, it was agreed that the resource guides should be field-tested extensively in classrooms throughout the nation.

All of these procedures have been followed and now the Economics-Political Science Series is available. We believe the series is unique not only in the separate features it embodies but more so in its composite emphases and contributions: (1) a focus upon social issues of major interest and consequences to students; (2) an emphasis upon the teaching and learning of analytical skills; (3) the development of an understanding of the fundamentals of economics and political science, the interrelationship between them, and the application of both disciplines in analyzing and acting upon social issues; (4) the use of diverse, proven teaching strategies and resources that aim clearly at achieving significant, measurable outcomes.

Another quality of uniqueness that can be attributed to this series is the range of people who have been involved in a close, working relationship: college professors and high school teachers; economists and political scientists; specialists in academic disciplines and specialists in methodology; teachers from school systems of varied sizes, locations, and student populations. We believe all of this has proved to be effective and bodes well for the development of social studies materials in the future.

Each publication of the series identifies the people who have contributed to its completion and we extend our appreciation to them for their dedication and competence. On behalf of myself and the Joint Council on Economic Education, I extend a special message of appreciation and commendation to Ms. June Gilliard of the JCEE staff for the most praiseworthy ways in which she has coordinated the development and production of the Economics-Political Science Series. She is recognized to be one of the nation's distinguished social studies educators and her role in this project should provide her with additional distinction. Throughout the project valuable assistance has also been provided by the following members of the JCEE staff: Dr. George Dawson; Anthony F. Suglia; and S. Stowell Symmes.

Although the support of the J. M. Foundation and Exxon Corporation (USA) has been mentioned previously, we acknowledge again our gratitude for having been provided the means to carry out the project and produce this series.

Of course, the Economics-Political Science Project which led to this series is not completed nor is it ever likely to be. Now will come further use, adaptation, modification, and improvement. Social issues are dynamic and there will be need for different resource guides in the years to come. We encourage such ferment and shall welcome suggestions that will enable us to join you in doing what is needed to improve the teaching of the social studies.

Dr. George L. Fersh
Director
Economics-Political Science Project

Preface

Organization and Uses of Unit Resource Material

Policy decisions affect everyone. Consequently it is important that students acquire the knowledge and skills necessary for understanding the major policy questions facing our society and for participating effectively in the processes of public debate and public decision-making.

Analyzing Government Regulation: A Resource Guide is the second in a series of resource guides focusing on economic-political analysis of contemporary public policies and issues. The topics for this and other units in the series were selected not only because of their current relevance, but also in the belief that these issues will continue to be the focus of public debate for some time to come.

In developing the Economics-Political Science (EPS) resource guides every effort was made to make the material as widely useful as possible. Material contained in individual guides was designed to be used by high school teachers with instructional responsibilities for Economics, Government, United States History, Problems of Democracy, or other social studies courses dealing with contemporary social issues.

The resource guide on govenment regulation consists of four major components, each designed to serve specific curricular or instructional purposes. The *introduction* provides a general explanation of the conceptual framework used throughout the series for analysis of policy problems and issues. Hopefully, it also provides a model that teachers may use for extending the study of government regulation or for developing additional units dealing with economic-political analysis of other areas of public debate and concern.

The purpose of the *topic overview* is twofold. First, it provides the teacher with background information on economic and political issues involved in the formation of a national policy for regulation of the economy. Secondly, it serves as a concrete example of how the conceptual framework described in the introduction is applied for economic-political analysis of policy issues.

The *unit rationale and objectives* and *instructional activities* deal specifically with instructional questions pertaining to the *why, what* and *how* of teaching about the unit topic.

The first five instructional activities are designed to introduce the student to the complexities of the interactions of local, state and national governmental agencies, economic enterprises, and individual citizens. The first three activities are case studies that focus on environmental problems. They differ mainly in the frame of reference from which the environmental problem is viewed. It is suggested that only one of the cases be used as an introductory activity. The other case studies might be used later to assess student understanding of the major concepts involved. The animated film, *Citizen Harold*, addresses the problems of citizen apathy and impotence and would be equally appropriate at a later stage. "Pre" and "post" showings of the film might be used as the basis for assessing changes in student attitudes. The *Consumer Redress* simulation quickly acquaints students with the variety of private and governmental agencies and the diversity of government regulations applicable to the problems that consumers encounter in the marketplace. It, too, can be used early and late in the unit to measure gains in understanding and competence.

When used in their entirety and in the sequence suggested, the instructional activities comprise approximately three weeks of study. It is not anticipated, however, that every teacher will wish to use the materials in this manner. For this reason most of the activities are designed so they may be used singly or in various combinations, depending upon the amount of time one wishes to devote to the topic and the needs of the particular student group for whom instruction is to be provided. To assist teachers in determining which activity or combination of activities is more appropriate for his or her students, each instructional activity has been keyed to the unit objective or objectives it is designed to achieve.

Materials recommended for transparencies or student readings have been reproduced in the back of the publication for ease of duplication.

We wish to express our appreciation to the writing team that prepared the material for this, our second unit in the EPS Series. To Antony F. Suglia for his services as team coordinator we owe a special debt of gratitude. We are also grateful to the following teachers for their review and classroom trial of the material in its experimental form: John E. Gardner, Jeanne M. Kish, John Lane and Sonia Sasarok, Cleveland Public Schools, Cleveland, Ohio; Mary Lynn Johnson, Chris Lay and Patricia L. Martin, Spring Branch Independent School District, Houston, Texas. We found their advice extremely helpful, and to the extent possible, their suggestions have been incorporated in the published material.

June V. Gilliard
EPS Project-Coordinator and
Associate, School Services Program

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Introduction

Laurence E. Leamer and Paul A. Smith

A central purpose of this series is to help students in learning to view society and its problems from both economic and political perspectives. This can best be done through study of specific questions, each of which offers an economic and political analysis of a distinct social problem.

Economics and political science are complex intellectual "disciplines," each having an extensive body of theory and methodology. As such, their applications in the diverse areas of policy decision-making may leave the teacher searching for certain "essentials"—certain core ideas—with which to explain matters to the student. Such essentials can be found in a modest number of basic concepts that mark each discipline. These are presented in separate statements below, followed by a brief discussion of how concepts may be combined to provide an integrated approach to the teaching of economics and political science.

1. An Economics Framework for Analysis of Policy Issues[1]

It is useful to think of the concepts that form the basis for economic understanding in terms of several broad "concept clusters." The diagram provided in Figure 1 (page 2) illustrates how these clusters and various subclusters are combined to form a schematic framework for economics curricula and instruction.

Every economy, however it may be organized, faces the fundamental problem that economic resources (natural resources, human resources, capital goods) are limited relative to the practically unlimited wants of people in the economy. How people allocate these resources among many competing human wants varies greatly among different economic systems. One broad class of systems solves this complex problem largely by reliance on tradition (e.g., some "underdeveloped" economies), another one by "command" (e.g., the centralized economies like China and the U.S.S.R.), and a third class by a decentralized market mechanism (e.g., the U.S. and most Western European nations). In reality, most economies are mixed in their use of the three approaches and in the economic institutions they have developed; and the approaches and institutions change with the passage of time. We focus primarily on the American economic system, but it is important to recognize that other systems face the same central economic problem of *scarcity*, although they deal with it differently.

When examining any economic system it is helpful to look both at its parts (microeconomics) and the whole (macroeconomics). In microeconomics independent elements can be explored such as what products are produced, how much a firm produces, how much income a family earns, or why corn prices are what they are. But some problems require an analysis of the economy as a whole and thus proceed from a macro perspective. Here economists examine aggregates such as general price levels, gross national products, employment levels, and other phenomena from a total economy perspective.

In our largely private enterprise economy (leaving government aside for a moment) competitive market prices are the dominant mechanism used to allocate scarce resources. Perfect competition rarely exists in the real world, but the competitive market provides us with a model of how markets "should" work when no individual is a big enough part of the total market to have any personal influence on market price.

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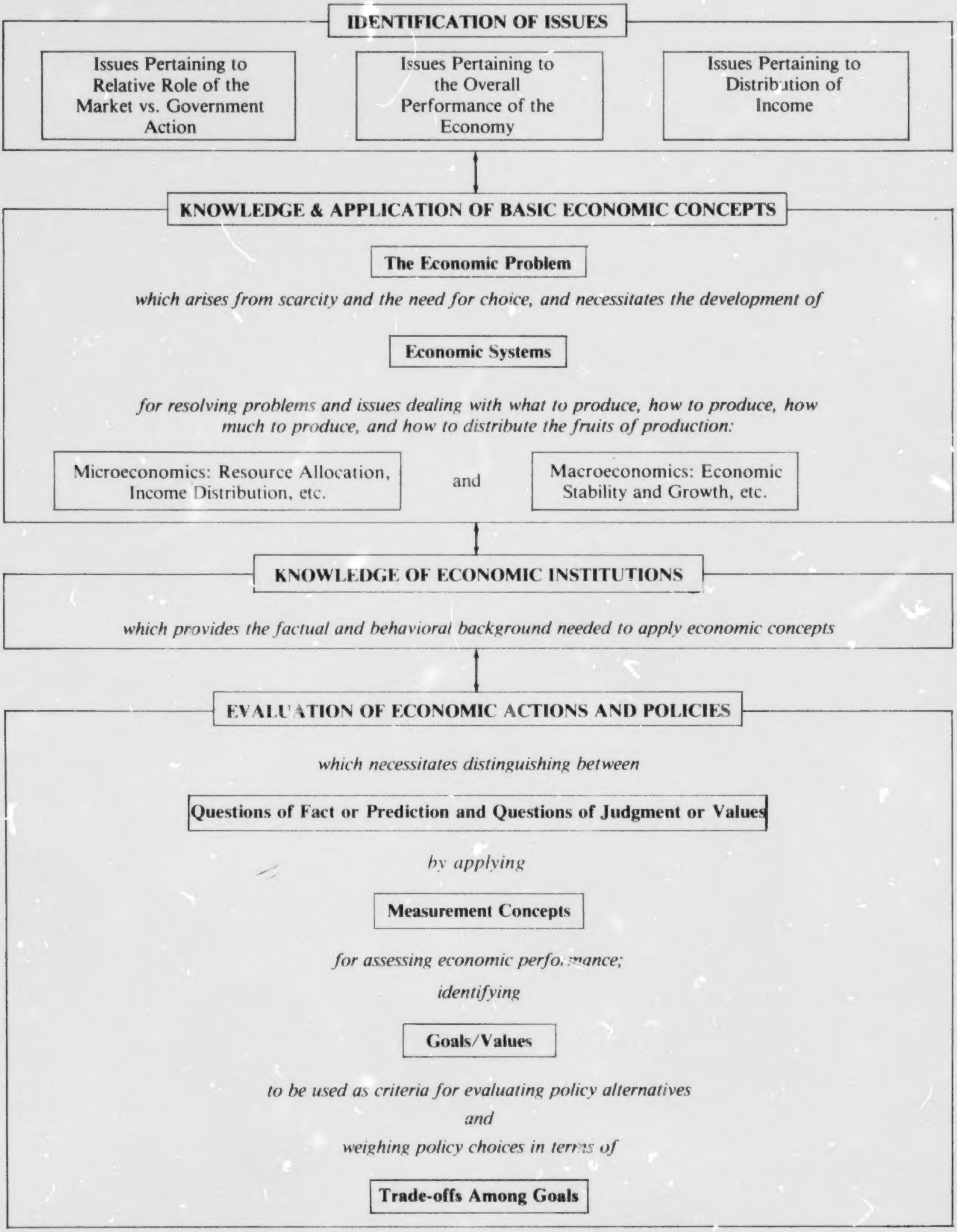
[1] Adapted from the January 1977 unpublished report prepared by W. Lee Hansen, Chairman, Framework Committee for the Joint Council on Economic Education Master Curriculum Project.

FIGURE 1
Framework for Analysis of Economic Policies and Issues

Systematic analysis of economic policies requires:



IDENTIFICATION OF ISSUES

Issues Pertaining to Relative Role of the Market vs. Government Action

Issues Pertaining to the Overall Performance of the Economy

Issues Pertaining to Distribution of Income

KNOWLEDGE & APPLICATION OF BASIC ECONOMIC CONCEPTS

The Economic Problem

which arises from scarcity and the need for choice, and necessitates the development of

Economic Systems

for resolving problems and issues dealing with what to produce, how to produce, how much to produce, and how to distribute the fruits of production:

Microeconomics: Resource Allocation, Income Distribution, etc.

and

Macroeconomics: Economic Stability and Growth, etc.

KNOWLEDGE OF ECONOMIC INSTITUTIONS

which provides the factual and behavioral background needed to apply economic concepts

EVALUATION OF ECONOMIC ACTIONS AND POLICIES

which necessitates distinguishing between

Questions of Fact or Prediction and Questions of Judgment or Values

by applying

Measurement Concepts

for assessing economic performance;

identifying

Goals/Values

to be used as criteria for evaluating policy alternatives

and

weighing policy choices in terms of

Trade-offs Among Goals

Businesses, in striving to make profits, try to produce at the lowest possible cost those goods and services that consumers are willing and able to buy. In some cases they also seek to influence consumer demands through advertising and other selling activities. Producers, in trying to maximize profits, draw productive resources (such as labor, land and machinery) into those enterprises where they will contribute most to meeting consumer demands. While doing so, businesses pay out incomes to workers, landowners, and other suppliers of productive services who are also trying to maximize their economic returns by getting the best possible value or price for what they have to offer. These incomes, in turn, make it possible for income-receivers to bid for goods they want. Thus markets, in which prices rise and fall in response to changing demands and supplies, provide the mechanism which links together consumers and businesses, each seeking to make the best of their positions and abilities, yet each dependent upon the other. In economics, this is described as a circular flow model of the economic system. Individuals and businesses who save part of their income and make these savings available for investment in new productive facilities or in human beings increase society's capacity to produce in future years. As a result another circular flow exists, connecting those having funds to invest and those seeking investment of funds.

Individual freedom of choice is central to the way the largely decentralized, market-directed American economy defines its goals and allocates its limited resources. But these individual freedoms, of the consumer, wage-earner, investor and businessperson, are limited by laws and by social institutions for the protection of the individual and society. Thus, markets and prices, reflecting shifting demand and supply conditions, are the main regulators of the allocation of scarce resources in the production of the most desired goods and services; but governments, unions, trade associations and other institutions help to set and enforce the rules under which competition takes place, and sometimes participate actively in the processes of production and distribution.

There are two general types of queries fundamental to understanding policy issues. One concerns questions of fact or prediction: *What is known* about economic behavior? Or, if we undertake some action, what will be the predicted effects? The other type concerns questions of judgment or values: *What ought to be done* to alter economic behavior? Should we undertake a particular policy or not, given that various people and groups may be differently affected? The failure to distinguish between questions of *what is* and *what ought to be* is the cause of endless confusion and can lead to inappropriate policy analysis.

As we sort through the vast array of questions and issues coming at us from newspapers, television, political campaigns, and our involvement in economic life, we find that most of them can be grouped into the following three broad categories:

One major set of issues concerns the relative role of private market forces and collective governmental actions. On these issues we are interested in knowing "what happens," or what is likely to happen, in response to a change in the demand for, supply of, and resulting price of individual goods and services. To changes in the supply and demand for labor and capital? To new developments in technology? These questions call for a description of how the total economic system or its parts behave under conditions of free competition and varying degrees of restriction. Another, related set of questions pertains to "what ought to be done." What ought to be done when people don't like the higher prices they must pay for individual products (e.g., oil, gasoline, sugar or coffee)? This involves thinking about whether to rely upon the operation of market forces or to rely upon collective action via government policy such as price ceilings, rationing, special taxes, regulation (e.g., truth-in-lending laws, environmental controls), and the like. Another way of phrasing the question is: When "should" direct government action be used to allocate resources differently from the way the price system would allocate them? For example, should local government act to allocate energy sources, such as oil or gas? Should government continue to subsidize shipbuilding, farming? Most of these questions concern economic efficiency. To consider appropriate public policy about such questions, one must first identify the consequences of choices, analyze them relative to desired results and values, and then make what is believed to be the most favorable policy decision. But other questions of collective action relate closely to economic equity. For example, should government raise gasoline taxes or use a direct quota rationing system to allocate relatively limited gasoline supplies? The former means that people with lower incomes will be made relatively worse off while the latter provides equal amounts of gasoline to everyone, irrespective of their need or ability to pay.

Another important category of issues relates to the economy's overall performance as reflected by the rates of inflation, unemployment and economic growth. What "causes" inflation? What "causes" unemployment? What "should be done" about inflation or unemployment? What policies should be pursued when unemployment and inflation exist simultaneously? There is an obvious overlap between these issues and those mentioned above in explaining recent inflation and unemployment. What "causes" economic growth? What are some of the benefits and costs of economic growth? What is the long-run relationship between economic growth and resources? Between economic growth, population and employment? Between economic growth and the environment? What is the "appropriate" rate of growth? Should we attempt to speed up or slow down economic growth, or pursue a "no-growth" policy? What is the best way to implement our policies?

A third major category of issues relates to the distribution of income produced by the operation of market forces and the redistributive effects of government action. Again, it is important to separate "is" from "should be" issues. What "is" the current distribution of income? What produces this distribution? To what extent does this distribution perpetuate itself? What is the effect of existing and of proposed government policies on income distribution? "Should" policies be adopted that are designed explicitly to change the distribution of income or economic well-being? "Should" the tax structure be made more or less progressive? "Should" schools continue to be financed largely by property taxes? Should policies designed to improve economic efficiency be adopted if they affect the distribution of income? Should government subsidize the housing of elderly and low-income renters? These issues appear to be, either openly or submerged just below the surface, critical to virtually all the questions posed above. They come up in any evaluation of how the market system works, in determining whether collective decisions alter individual economic decisions, and in assessing the extent to which inflation, unemployment and growth affect the general well-being of the population. Who gains and who loses, and who should gain and who should lose, best summarizes what is at stake here.

There are several reasons why unequivocal answers to these and similar questions are not readily available. Economic systems are complex, and an understanding of these systems requires a conceptual framework, factual and cultural information, the application of analysis, the making of judgments, and the determination of action to be taken. Moreover, our ability to know exactly how effectively the economy and its components function is limited by difficulties in obtaining accurate and timely measurements of economic activity. Finally, a variety of unanticipated events affects economic activity, and thereby makes it difficult to predict accurately the results of specific economic decisions. Unlike the physical sciences, carefully controlled experiments are difficult to undertake in economics.

Even if our understanding of the economy and economic decision-making were vastly improved, we still could not expect all disagreements on economic issues and questions to be eliminated. Certainly, some disagreements will be resolved as our understanding is increased; many disagreements will persist, however, because of differences in judgments about the actual or predicted effect of specific decisions; and still others will remain because individual economists, as do most individuals, adhere to different sets of values.

The heart of economics is decision-making—choosing among alternatives. But economic decisions are not made in a vacuum. Rather, they are made in the light of a set of goals. These goals vary from one society to another, from one group to another within a society, and from one individual to another within a group. Among the goals most evident in the modern world and particularly in American society are freedom, economic efficiency, equity, security, stability (full employment and the absence of inflation) and economic progress.

Economic decision-making entails the *opportunity cost principle*. When decisions are made to use scarce resources to produce particular goods or services, opportunity costs refer to what must be given up, i.e., opportunities forgone. A decision to produce one good means giving up the possibility of producing something else. Thus, the opportunity cost—what could have been produced with the resources instead—is the cost of producing that good. For an individual, the opportunity cost of something purchased is the next best alternative which must be forgone. For a society, it is the alternate uses to which productive resources could have been put.

When a person or a group chooses one good instead of another, it is making a *trade-off*—that is, it is trading off less of one thing for more of something else. Society has to make trade-offs too, e.g., between its need for more energy and its desire to preserve the environment. Essentially this involves comparing the various costs and benefits of each of the alternatives. It also involves determining how these costs and benefits will affect different groups within the economic system.

Goals or criteria provide a means of evaluating the performance of not only an economic system and parts of it, but also of existing programs and new policies under consideration. However, many of the goals conflict and difficult trade-offs have to be made. Examples are farm price supports, which promote security but reduce efficiency; minimum wage laws, which can be thought of as equitable [illegible] may increase teenage unemployment; and wage and price controls, which may restrain inflation, but also reduce efficiency and freedom. Economic analysis does not make value judgments in these policy areas, but it does help people to understand the nature of the trade-offs so that they can form their own judgments in the light of their own values. Perhaps, most importantly, it encourages use of a reasoned approach in dealing with controversial economic issues.

2. A Political Science Framework for Analysis of Policy Issues[2]

The political scientist uses certain major concepts to find meaning in the world of politics. These concepts direct attention to the significant qualities of any political system and provide measures for how well it is working. As in other intellectual disciplines, there is considerable disagreement in political science about what things are important and how they should be studied. Nevertheless, while political scientists might argue about exact definitions and preferred approaches, the following concepts provide us with working tools for political analysis. Each of the problems we shall be addressing in this series is a problem of public policy, and thus its solution—or nonsolution—must involve political decision-making. These concepts will provide us means for understanding this process.

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[2] The statement of political science concepts was prepared by Paul A. Smith of S.U.N.Y., Binghamton, with the consensus of the other political scientists involved in the project.

The first concept is *authority*. With this we refer to the legitimacy that a political leader, or procedure, or policy has. A political action is authoritative to the extent that it is accepted as right and proper by the community it affects. Authority, therefore, is a relationship that arises not from the will of governors but from beliefs of the governed. What "gives" a political decision authority is usually its connection with some basic *procedure* or *institution* that the community views as a fundamental value. Often this is expressed by some historical event or document. For example, we say that the U.S. Constitution gives the President authority to command the armed forces and the Congress authority to declare war, while neither has authority to do both.

Of course there are many kinds of authority—in art, science, religion, and so forth—all involving standards of performance or truth. The distinctive aspect of political authority is its relationship to social power. "The state," we often say, embodies the authority to make "final" decisions affecting social values; or, more specifically, to use coercive force. Political authority is a tricky concept because it is often confused with power, and because its exercise almost always means that some members of the community must do things they don't want to do. This complicates the quality of approval implied by authoritative acts. Authority wanes as this complication grows.

Our second concept is *power*. Power is the capacity to get persons to do things they would not otherwise do, with *political* power activating instrumentalities of collective sanctions—customarily the state. Obviously, power has many sources. It can "come out of the mouth of a cannon" or it can rest on such forces as love, money, oratory, knowledge or authority. Like authority, power is a relationship. It rests on shared values and unequal resources. Power is authoritative only when its exercise is accepted as legitimate by the community. When power goes beyond authority, deep conflicts occur in the community and governments must use more force and coercion to sustain themselves and carry out policies. We ordinarily think of democratic government as a model in which power and authority overlap and where explicit procedures of consent are used to determine authority. The distribution (who has how much) and exercise of power are thus key factors in the way problems of public policy are handled in the political system.

Although we have used the term *public policy* as if it were a simple and commonly understood concept, in recent years political scientists have given considerable attention to its meaning and analysis. One reason for this is that it is often difficult to know when an action is or is not part of a "policy," and when nongovernmental institutions actually might be "making" policy. For our purposes, this third concept refers to *patterns* of action by government that are directed at recognized social problems. Thus we think of public policy as not one but a *series* of actions having political authority and aimed at some coherent set of social needs. Policy, therefore, is something that results from what government does, and that reflects the power, values and skills of the political community.

In order to deal with the multiple group and individual actions that go into policy-making, political scientists often use the concept of *process*. This refers to the dynamic relationships—especially the relationships of influence—among those who take part in the various steps through which policy is suggested, formulated, authorized, changed, and so forth. Sometimes the "policy-making process" refers to what happens in the political system as a whole, and sometimes to actions leading to a particular policy, or set of policies. In either case, process is always active in nature, and the term emphasizes that governing or policy-making cannot be described adequately with formal structures of authority or power.

This brings us to our fifth concept, *institutions*—well-established and "structured" patterns of behavior through which power is exercised and governmental actions are taken. Congress, the Presidency and the Supreme Court, political parties, elections, regulatory agencies, and city councils—all are political institutions. Each such institution is composed of a distinct structure of rules, procedures, roles, expectations and rewards; and it serves certain functions. In America institutional development is well advanced and policy-making is largely channeled through certain types of political institutions designed to "produce" policy. Since institutions are by definition well-established, and elements of their structure are often defined by formal rules (laws), political institutions tend to embody large amounts of authority in their respective areas of jurisdiction. Indeed, we often refer to persons who hold positions or "offices" in governmental institutions as "authorities." So strong is this institutionalization that political activities outside of them are often viewed with suspicion, if not outright opposition. For example, street demonstrations, or demonstrations in courtrooms, are usually treated as highly controversial and "out of order" in the American community.

Political institutions, therefore, tell us a lot about public policy-making. As embodiments of authority, they are preferred channels for political action and power. They are not only natural targets for those in the community who wish to influence policies, but also are guides to who has power in the community. For example, Congressional committees are the focus of political activity on the part of those community interests over which the committees have jurisdiction, while these same committees usually become biased in favor of these same interests. The same thing happens to regulatory agencies. It is easy to see, therefore, that most policy processes occur in and around institutions. Moreover, important relationships develop between political institutions and those of other types—economic institutions, for example. Business corporations, labor unions, and markets have close and complex ties to political institutions ranging from committees of Congress and federal regulatory agencies to small-town governments.

Our sixth and last concept is political *participation*. By this we mean activities that are part of political decision-making—decisions supported by the power and authority of the state. The first point to be made about participation is its diversity. Voting is probably the form of participation that most Americans would think of before any other, since free elections are an institution in America. But for those of us interested in public policy-making, other forms of participation are more useful—writing letters to Congressmen, direct lobbying, or contributions to political campaigns, for example. Bribing, or assassinating, or providing information to government officials are other examples. These remind us that some forms of participation are more legitimate, more costly, and more effective than others.

A logical result of these things is the second point about participation: some members of the community participate more than others. Although it is not easy to summarize the enormously complicated nature of this point, as a rule those persons who have greater resources of wealth, or skill, or status can and do participate more and with greater effect than persons who have fewer of such resources. The fact that this generalization can be made for every known political system has obvious implications for the distribution of power, the nature of policy-making, and the outcomes associated with policies. Democracies pride themselves on expanding participation, and this is a public value in the United States. Even so, the general relationship between resources and participation remains. Moreover, some areas of policy-making have more participation than others. For example, fewer Americans "decide" the level of defense expenditures each year than where bridges will be built over inland waterways. Participation must be measured and judged not only in terms of amount, but also in terms of quality and breadth. Some men and women might paticipate with great intensity (and effect) in a relatively narrow area of policy, while others might participate over a wide range and with less effectiveness in any one area. Thus political participation is many-faceted and complex.

Looking back on the six concepts that we have singled out for special emphasis in the understanding and application of political science, we see that each one in itself has a good chance of becoming an arena of controversy in the policy-making process: Does a particular policy represent an "abuse, or a maldistribution, of power"? Did the policy process wrongly exclude deserving groups in the community? Does government intervention constitute a "misuse of authority" or the "abridgment of rights" for example? The reason for this is that these concepts not only involve the *description* and *analysis* of politics, but the *evaluation* of politics as well. Each carries with it values and standards—How much power is good? What extent of authority is proper? Who should participate, and in what way? And beyond this is the question of political *effectiveness*, the capacity of the political system to act, to work, and get things done. Remember that Mussolini was originally complimented because "he got the trains to run on time." (Which later turned out to be questionable.) So the effectiveness of a governing arrangement, or of a public policy, also becomes (and hardly surprisingly) a criterion of value.

Finally, we are left with the question, "What is politics?" Political (or "public") authority, power, process, policy, institutions and participation all involve conflicts of value. Politics is the working out of these conflicts so that policies are made and governments can function. In democracies politics is marked by bargaining, compromise and accommodation, and it is this meaning of politics that is most common in America. In cases where there is policy unanimity within a political community, there is no politics, while policies that are imposed on a community also have no place for politics. Politics, therefore, occurs where there is conflict over social policies and where these conflicts are resolved with a mininum of value loss to any particular interest. Some members of the community will win, others will lose. Some will get more than others. But the gains and losses will be limited by the process of politics. Politics is often looked upon as a necessary evil, with suspicion and skepticism. But as you consider the different problems of public policy, and the conflicts and controversies over solutions that divide the community, imagine what policy-making would be without politics. It would be policy-making of absolute unanimity or absolute coercion, or both. Neither of these is consistent with our basic ideals of individuality and the free and vigorous expression of ideas.

3. Integrating Economics and Political Science

While economics and political science are separate disciplines, it is important to keep in mind that they have much in common, and that in effective analyses of public policy they almost always must be used together. Indeed, "Political Economy" has a long and distinguished tradition as an intellectual discipline itself. The similarities and differences between economics and political science are summarized in Figure 2.

Both economics and political science are concerned with human values, and with the decisions about these values that have social consequences. Both disciplines are social sciences, which means that both have similar standards of scientific logic, evidence collection, and the construction of theory. In short, they share a common emphasis on verified explanations of patterns of social life. Both, therefore, are concerned with

FIGURE 2

THE SUBJECT MATTER OF POLITICAL ECONOMY:
A Framework for Analysis of Political-Economic Policies and Issues

ECONOMICS **(Economic Science)**	**POLITICS** **(Political Science)**

FOUNDATION

THE ECONOMIC PROBLEM (Wants > Resources → Scarcity, i.e., our wants exceed available resources and therefore scarcity exists)	THE POLITICAL PROBLEM (Conflicts of interest)

THUS

I. Political economy is the study of the **methods** by which society—

employs its resources (human, capital, natural, time) productively for the fulfillment of human wants.	resolves conflicts of interest over the authoritative allocation of values; thus a study of power.

Toward these ends

Economics is a study of how a society decides—	Politics is a study of how a society decides—
a. **What** to produce (i.e., what wants to fulfill) and **how much** to produce	a. **What** goal values are to be sought and given authority
b. **How** to produce most efficiently (i.e., how to allocate resources most productively to their alternative possible uses)	b. **How** societies are to be organized for the pursuit and use of power and authority (i.e., mechanisms for resolving conflicting values, achieving social goals)
c. **For whom** to produce (i.e., who is to get what and how much and how is this to be decided)	c. **For whom** the organization exists (i.e., who gets what; whose goals are served?)

II. Political economy is the study of **social problems** relating both to the functioning of the organization as a whole and to its particular institutions.

Both Economics and Political Science usually employ a problems approach involving four steps

a. **Definition of the Problem**—What desired goals are believed to be inadequately served by existing institutions? How does "what is" conflict with what many think "ought to be"?

Economics is concerned with problems relating particularly to the goals of—	Politics is concerned with problems relating particularly to the goals of—
1. Efficiency and productivity 2. Growth 3. Stability (both full employment and general price stability) 4. Security 5. Equity in the distribution of income	1. Justice in the exercise of power 2. Equity in the distribution of power (income, deference, security, influence) 3. Freedom (both limits on the use of power and access to resources needed to realize individual potential). 4. Effectiveness

b. **Understanding the problem**—What concepts, what analytical tools, what facts do economics and political science have to contribute to an understanding of the problem and its proposed solutions?

What do we know about how productively resources are being employed for the fulfillment of human wants related to the problem and the consequences for other values?	What do we know about value conflicts (i.e., conflicts of interest) related to the problem, how they are being resolved, and the resulting allocation and use of power?

c. **Public policy alternatives**—What are their economic and political implications? How may citizens, as individuals and groups, influence policy decision-making?

What will be the probable consequences, both in the short run and long run (the seen effects and the unseen), for the economic goals stated above?	Who is proposing what and why? How does private interest relate to public interest? What are the probable consequences for the political goals identified above?

Thus what policy alternatives will bring the greatest net realization of values?

I.e., a more optimal allocation (use) of resources (so that their marginal value products in all alternative uses are equal).	I.e., resolution of the problem with a minimum value loss to any participant and a maximum value gain to all.

Which policy alternative is most compatible with one's economic philosophy (i.e., one's view of the proper role of government in relation to the economy)?

Should government's role in the economy be expanded or contracted. If so, where?	Can government be effectively organized to serve the roles assigned to it? How?

d. **Action**—How may one implement one's views?

How does one act as consumer, producer, as a member of an interest group to bring about desired changes?	How may one as a citizen or leader participate in politics to be most effective in bringing about desired changes?

social problems. See Part II in Figure 2 for a summary of the four steps in a rational approach to the study of social problems.

But the two disciplines differ in their framework for analysis, institutions, fundamental concepts, and the type of evidence or "data" they most commonly employ. Economists and political scientists have therefore developed different areas of expertise. Economists are experts on the vast array of stable and changing conditions that are related to the distribution and exchange of goods and services. They concentrate their attention on the institutions or arenas where these economic decisions take place. The most notable of these are what economists call "markets," with their component buyers and sellers. Their data are commonly in the form of units of economic value—*money*—units that have the great advantage of precision and comparability.

Political scientists, on the other hand, are experts on the distribution and use of social power, and on the institutions through which that power is mobilized and made authoritative. Most notably, these are institutions of government, political parties, and elections. Since there are no measures of power or authority comparable to that of money and market values, political scientists use various forms of data to study politics, including votes, opinion surveys, laws, and judicial decisions. It is also true that just as economists recognize that actions of government affect economic conditions directly and indirectly, political scientists know that economic resources are resources of social power, and that economic issues are a major element of politics.

Insofar as alternative social goals can be assigned economic values, and markets exist in which these values can be expressed and measured, economic processes and analyses are effective means for achieving social policies. Cost-benefit analysis remains a classic way to choose among alternative human values and policy goals.

When, however, human values cannot be measured as "economic goods," or when markets are for some reasons (such as monopolies) not effective in their pricing and distribution functions, then policy decisions tend to be moved from the economic to the political arena. The realm of politics can encompass conflicts among alternative human values and social goals of all sorts, with the resulting policies being enforced through the power and authority of government. For each of the social problems treated in this series, you will find it interesting to observe how both economic and political factors contribute to both the causes and possible solutions of the problems, and how economists and political scientists analyze, in their own ways, what the problems are and how they might be solved.

While we recognize the importance of the other social sciences and the extent to which they enhance one's understanding of public problems and issues, our aim here is to combine only two of these disciplines, economics and political science. The teacher resource materials contained in this and other units in the series provide concrete illustrations of how economics and political science may be combined for purposes of enabling students (1) to analyze and understand policy issues and (2) to participate effectively in the political process through which policy alternatives are examined, promoted and acted upon.

Topic Overview

The Economy and Government Regulation

John F. Bibby and Leon M. Schur

The Problem

Has government regulation of the economy achieved its stated purposes such as price competition, consumer protection, a cleaner environment? What have been the benefits, costs and consequences of regulatory policies? These are some of the fundamental issues of government regulatory policies.

They are significant issues because regulation affects the quality of life for every citizen. It influences the price one pays for the most basic necessities, as well as for nonessentials; it influences the extent and quality of services available; it provides protection for the consumer and the general public.

American business and labor operate within a complex web of national, state and local governmental regulations. These enactments follow no single philosophy or methodological plan and they are not coordinated at either the national or state levels. Rather, these policies have grown up over the years as pragmatic responses to specific socioeconomic problems and political pressures. The economic and social objectives sought by regulation have been diverse, including lower prices, preservation and strengthening of essential industries, protection from consumer fraud, and consumer and public safety.

Because regulatory policies bestow costs and benefits on various segments of society, the extent and nature of regulation have been and continue to be major sources of controversy among the contending forces of American life. In the 1970s the focus of attention has been on the issue of "deregulation," that is, the elimination, reduction and restructuring of existing regulations. A diverse constellation of forces has joined this cause—for example, former President Gerald Ford, conservative economists, liberal Congressmen, the media, Ralph Nader, Common Cause, populist academics, and *The Wall Street Journal*. As might be expected, the various elements of this diverse grouping see in "deregulation" quite different potential benefits. Gerald Ford and some businessmen view "deregulation" as a way to liberate business enterprises from "regulatory bondage" that has inhibited economic growth, efficiency and innovation. At the same time, Mr. Ford and Ralph Nader have asserted that excessive and outmoded regulations are costing the citizenry billions yearly in additional costs for the commodities they buy. "Deregulation," they believe, would result in savings for the consumer. Others on both the ideological left and right see in "deregulation" and regulatory reform an opportunity to break up the pattern of "capture" which they assert exists in most regulated industries. This is a situation in which the regulatory agencies eventually become captives of their business constituencies so that regulation constitutes a government-business conspiracy against the consumer.

In spite of the impressive endorsements which "deregulation" has received, political observers give administrative and legislative proposals for deregulation little chance of being promulgated or enacted. Within the business and labor communities, Congress and the regulatory bureaucracy the opposition to changes is intense.

This struggle over "deregulation" has tended to mask the continuing battle which other groups are waging to expand the scope of government regulation. Particularly active are the environmentalists who insist that more stringent regulations are needed to prevent the despoiling of our natural resources and the newly emerging consumerists. In addition, various industry groups confronted with specialized problems continue to press for relatively narrow regulatory programs to alleviate their particular source of distress (e.g., the demand of meat-packers that the government require all packers to be bonded against financial loss).

In all the controversies surrounding regulation, the questions which must be answered include the following:

1. Are the objectives of existing or proposed regulations desirable?
2. What are or will be the benefits, costs and consequences of regulatory policies?
3. Are the existing or proposed regulatory policies efficient, i.e., do they achieve desirable objectives at minimal cost?[1]
4. Are the existing or proposed regulatory policies equitable, i.e., do they treat those subject to the regulations fairly on the basis of rules known in advance and applicable to all?[2]

The regulatory process is so complex and pervasive that most major industries will find aspects of their activities regulated by all three levels of government. Which level of government performs selected regulatory functions depends on a number of legal and political factors. Thus, the federal government, by virtue of its constitutional authority, has jurisdiction over industries and unions engaged in interstate commerce. State and local governments have jurisdiction over intrastate commerce. In actual practice, however, the distinction between inter- and intrastate commerce is murky and the Congress, with Supreme Court approval, has left major areas of interstate commerce to the states to regulate (e.g., insurance). Political considerations also play a major role in determining which level of government will perform regulatory functions. Some interests in American life believe that they have more influence at the national level and hence prefer to have regulation performed by federal officials. Labor unions, for example, have traditionally preferred federal regulation and protection as opposed to state regulation. By contrast, many industries think that their interests are better served by state regulation, at which level they have greater influence. The locus of regulatory machinery therefore often reflects the outcome of a power struggle among contending interests in the political arena.

Taking place as it does at all levels of government, regulation of the economy is a fragmented and uncoordinated series of different policies designed to achieve a variety of economic and social objectives.

In approaching these issues, we will be concerned primarily with regulation of the economy by the federal government. This national level emphasis reflects the fact that more is known about regulation at this level, and the greater economic impact of federal regulatory policies. There remains, however, a vast area of regulation which is handled primarily at the state and local levels. For example, the bulk of regulations pertaining to the public utilities, the insurance industry, and professional licensing are administered by state commissions and boards. Similarly, local governments are engaged in a wide array of regulatory activities including health regulations, liquor licensing, and building and zoning codes.

The Economic Rationale for Regulation

Introduction

The debate over the role of government regulation in our economy is not between those who believe in no regulatory force and those who favor total regulation by government, but rather between those who favor a predominant role for competition as a regulator, and those who favor a greater role for government. The major motivating force in a market economy such as our own is self-interest, not altruism. If there were no checks whatsoever—either from competition or from government—on this force of self-interest, chaos would result, for each economic entity with a monopoly position would attempt to exact maximum profits, wages, interest or rent for the product or service being sold. Certain economic units would be able to exact payments from the rest of us based on their bargaining power or strategic position rather than on their contribution to the economy. Therefore, before one can answer the question of the role of government as a regulator in our economy, one must thoroughly understand the regulatory role of competition itself.

As economists know, market competition results when there exists:

1. a sufficient number of both buyers and sellers so that no one, or no small group, can control price.
2. reasonably complete information among the buyers (and sellers) as to the nature, price and availability of the given product.
3. reasonably free entry into the market—for new producers or sellers who may be attracted by the profits being earned, and for new buyers who wish to purchase at the market price.

Of course, all three of these requirements may be difficult to fulfill simultaneously in the real world, although there are many examples: agriculture, retail gasoline sales in many urban areas, specialized retail stores, etc. However, economists often refer to "workable" or "effective" competition, in which market prices over the longer run reflect both underlying individual demand and long-run supply conditions. Thus, in an industry such as the automobile industry, with a very limited number of competing firms, we actually may find fairly vigorous competition in three ways: (1) the used-car market competition with the new-car market, (2) nonprice competition such as adding something new to a product which a competitior does not have, or convincing buyers of the superiority of a product through advertising, and (3) price and quality competition from foreign auto manufacturers. The key questions are whether a given industry is meeting the demands of the consumer and whether the firms in it are prevented from earning unusual profits as a result of power to control the price that is charged for their individual products.

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[1] James Q. Wilson, "The Dead Hand of Regulation," *Public Interest*, No. 25 (Fall 1971), p. 40.

[2] *Ibid.*

The effects of price competition are to force business firms to produce products in the most efficient methods possible and to sell them at the lowest possible price. The penalties for not doing so are falling profits and, eventually, extinction. In nonprice areas the effects are to put pressure on firms to improve the quality of their products and to produce new products desired by buyers. If a firm in a competitive industry either does not produce a given product efficiently, or attempts to increase profits by raising prices above those charged by competitors—or fails to produce the products demanded by buyers—it will lose sales to its competitors. The process of competition has been referred to as one of "creative destruction," because it (1) destroys inefficient firms by forcing them into bankruptcy, (2) forces the other firms creatively to introduce efficient methods of production and (3) forces all firms to respond to consumer demands. The more complete the competition, the stronger those forces are which make producers accountable to consumers.

1. Controlling Natural Monopolies. The opposite of complete competition is complete monopoly, which may be defined as a market in which there is a single seller. A good example of a pure monopoly is the local telephone company, bus company or electric company which actually has a public franchise to be the sole producer. Of course, an approximation of monopoly or what we may call effective monopoly can exist where a few sellers implicitly or explicitly conspire to raise prices, to allocate markets, or to avoid competition otherwise. The economic significance of monopoly is that it permits the monopolist to raise price above—and lower production quantity below—the competitive level. Without competitive pressure, the monopolist may also not develop new products or new productive techniques, or may otherwise fail to meet the demands of consumers. As one economist has put it, "monopoly is closed, exclusive, unequal, rigid. Competition is usually open, inclusive, fair, flexible, efficient and equitable."[3] While monopoly, complete or partial, hurts consumers and the economy as a whole, it helps the monopolists. Therefore, the *desire* to establish effective monopoly power is pervasive in market economies. While most economic groups in the economy pay lip-service to the desirability of competition, they often attempt by their actions to avoid competition for themselves and achieve a monopoly position for themselves or their membership. In the United States many government actions to regulate economic behavior flow from the basic perception that competition is good and that uncontrolled monopoly power is bad.

Different types of monopoly require different forms of regulation. In certain industries a single firm may be able to supply the entire market at lower unit costs than a number of competing firms due to economies of scale over the relevant output range. Such a firm is termed a "natural monopoly." An example is a public utility. Since we cannot use competition as an efficient regulator in the case of public utilities, we have turned to government regulation of rates and services. Competition in electric power, gas, telephones and water is inherently difficult. Imagine four or five telephone companies serving each home and business in a given city with separate lines; yet this would be a minimum necessity for competition in the industry. On the other hand, an uncontrolled utility supplying all phone service in the same city would be able to charge extremely high prices and earn a very high return on investment by virtue of being the sole seller. Therefore, city, state or federal commissions regulate natural monopolies in an attempt to get roughly the same level of service and prices which we would get if competition were the regulator.

While government regulation of public utilities may be a better alternative than uncontrolled monopoly, it is by no means an ideal solution and several disadvantages are apparent. First, effective regulation depends on information available to the regulators. This is often difficult to obtain and interpret. The true cost of a public utility as well as its costs of capital are determined only after lengthy hearings in which often neither the company nor consumers are satisfied. Second, it is difficult to determine whether the regulated firm is operating at—or even near—the efficiency of a competitive firm, since no benchmark firms exist for comparison. Protection of the status quo may be the main result. Third, during times of rapidly rising prices, delays in regulatory proceedings may hold down regulated prices and the firm's real capital may be diminished with resulting deterioration of service.

An alternative method of dealing with a natural monopoly is public ownership. In the United States, that alternative has been used for the postal service, the Tennessee Valley Authority, and nuclear plants operated by the Atomic Energy Commission at the federal level, and electric, water or sewerage services at the community level. In many foreign countries there is widespread government ownership of the telephone, telegraph, electric, water, petroleum, railroad, bus and airline companies. Government ownership of a natural monopoly eliminates uncontrolled private monopoly power, but at the cost of other problems. It removes the purely economic pressures of the market but also brings it under the wing of the government where it may be protected from public criticism and economic pressure to operate more efficiently. While the role of government in our economy has been expanding to include many areas of government regulation and intervention, it has hardly expanded at all over the last 20 years in the area of public ownership of industry. It appears unlikely that this trend will be significantly reversed in the foreseeable future.

2. Preventing Destructive Competition. A second rationale for regulating economic activity is the prevention of excessive or destructive competition which might actually lead to monopolization by the elimination of all but one seller. The Interstate Commerce Commission (I.C.C.) was established largely to prevent destructive competition. It was argued that unregulated competition was unworkable in the railroad industry since price competition which attempted to reach the full economies of scale would result in cutthroat competition and widespread losses, eventually eliminating the weaker firms, and the establishment of a monopoly or collusive price agreements among the surviving firms, resulting in higher prices and poorer service for consumers. To avoid this, the I.C.C. was established both to regulate railroad rates and services and promote the health of the industry.

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[3] Clair Wilcox and William Shepard, *Public Policies Toward Business* (Homewood, Ill.: Richard Irwin, 1975), p. 6.

In the first part of this century a technological advance in the form of the trucking industry brought strong competition to the railroads. Rather than deregulate the railroads and return to the market control of effective competition, the trucking industry was brought under the regulatory umbrella of the I.C.C., despite objections from truckers. (Today the trucking industry, like the railroads, generally opposes deregulation.) The rationale for regulating railroads and trucks was also used to regulate airlines and gaslines: control destructive competition while preventing monopoly power. In the case of airlines it was maintained that limited access to airports, especially at desirable hours, created elements of a natural monopoly and that destructive competition among firms over profitable routes necessitated regulation. Thus, the Civil Aeronautics Board (C.A.B.) was created to regulate airline fares and assign routes. In the case of gas it was contended that limited access to transmission lines created a natural monopoly and the Federal Power Commission (F.P.C.) was created.

Whatever merit the arguments for transportation regulation may have had at one time, many economists question both the effectiveness of these commissions and the actual need for regulation under current technological and market conditions. The *1970 Economic Report of the President* summarized this questioning as follows:

> The American experience with regulation, despite notable achievements, has had its disappointing aspects. Regulation has too often resulted in protection of the status quo. Entry is often blocked, prices are kept from falling, and the industry becomes inflexible and insensitive to new techniques and opportunities for progress. Competition can sometimes develop outside the jurisdiction of a regulatory agency and make inroads on the regulated companies, threatening their profitability or even survival. In such cases, pressure is usually exerted to extend the regulatory umbrella to guard against this outside competition, so that the problems of regulation multiply and detract from the original purpose of preventing overpricing and unwanted side effects.[4]

3. *Strengthening Competition.* In the cases of a natural monopoly or destructive competition, the answer is likely to be a public utility commission or other regulatory agency which determines prices and services for a given industry. However, in many other sectors of the economy, monopoly may be neither desirable nor inevitable and the government response is simply to maintain and strengthen competition. This was the rationale behind the antitrust laws (Sherman Act of 1890, Clayton Act of 1914, Federal Trade Commission Act of 1914, Robinson Patman Act of 1936, Antimerger Act of 1950) which prohibit agreements to fix prices, to restrain trade, or to participate in mergers which limit competition and thus eventually raise prices. The Antitrust Division of the Department of Justice and the Federal Trade Commissin (F.T.C.) are the major administering agencies. It should be emphasized that the purpose of the antitrust laws is not to tell firms what to produce and what to charge but rather to maintain competition so that competition itself will act as a regulatory force.

Economists differ on the general desirability of the antitrust approach. At one extreme some economists argue that the power of the large corporations is necessary for efficiency and innovation. As John Kenneth Galbraith, one advocate of this approach, has put it:

> The showpieces [of our economic system] are, with rare exceptions, the industries which are dominated by a handful of large firms. The foreign visitor, brought to the United States . . . visits the same firms as do attorneys of the Department of Justice in their search for monopoly.[5]

At the other extreme, economists cite studies to show that breaking up large firms in heavily concentrated industries would not reduce efficiency and that stricter enforcement of the antitrust laws would be desirable. They argue that penalties have been too low and that more vigorous and consistent enforcement is desirable. However, the consensus among economists would probably be that monopoly power cannot be held to exist simply because industrial concentration reaches some arbitrary level, and that each case must be judged on its own merits.

4. *Restricting Competition.* Another type of regulation of economic activity which is explained more by political muscle than economic theory is aimed at restricting competition. Professor Milton Friedman, the well-known conservative economist, has said that "businessmen want socialism for themselves and free enterprise for everyone else." One might well say the same for some trade unions, agriculture, teachers or almost any other organized economic group. While paying lip service to the desirability of competition, they often try to obtain government's help in protecting them from the discipline of competiton. It is

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[4] *Economic Report of the President* (Washington, D.C.: U.S. Government Printing Office, 1970), p. 107.

[5] J. K. Galbraith, *American Capitalism* (Boston: Houghton-Mifflin, 1956), p. 91.

usually asserted by the proponents of such regulatory schemes that the national interest requires the preservation of certain types of economic enterprises, such as small businesses, family farms, and so on.

"Fair Trade" legislation was an important example of a successful effort to restrict competition. Faced with competition from chain and discount stores, independent retailers persuaded Congress to pass legislation allowing the states to enact legislation which prevented retail establishments from selling merchandise covered by the law at lower than manufacturers' suggested retail prices. ("Fair trade" legislation was repealed in 1975.) A similar example of regulation to restrict competition is the Capper-Volstead Act of 1922 which exempts agricultural cooperatives from specific provisions of the antitrust laws and permits them through agricultural marketing orders to maintain specific commodity prices above competitive levels. A majority of economists probably favors repeal of this general class of laws which bring higher profits to specific economic groups by raising prices to the consumers.

State and local governments have also been persuaded—again through political muscle, not economic analysis—to pass laws which restrict entry and permit price fixing in an extremely broad range of occupations ranging from TV repairmen to embalmers and physicians to beauticians. Whatever the merits in a given case, this class of laws restricts competition and results in generally lower output of services and certainly higher prices to consumers.

5. Allocating Unspecified or Ill-Defined Property Rights. A fifth rationale for government regulation in the economy is that unspecified or ill-defined property rights make it necessary for government to allocate certain public resources to prevent their overuse. For example, who should have the right to use the airwaves for commercial broadcasting or telecasting? If there were no restriction on the use of the airwaves, the overuse would result in chaos. Therefore, in the case of the airwaves the Federal Communications Commission (F.C.C.) allocates the airwaves for use of both commercial radio and television. Entry into commercial banking and the savings and loan field is similarly allocated by the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation. In each of these cases competition and entry is limited and the chartered corporation may gain profits above competitive levels. Some economists have suggested that radio and television licenses and bank charters should be distributed by some form of competitive bidding, with the revenues from the bids to go into the public treasury.

The rationale of unspecified or ill-defined property rights also applies to the environment. The nation has found in recent years that business firms have polluted the air, water and land space to a degree that cannot be permitted to continue. Economists refer to this as a problem of "externalities" because the costs of environmental pollution are not an internal cost of production to the firm but are rather an external cost which is borne by society. For example, if an aluminum firm pollutes a stream in the process of producing aluminum, this does not raise its costs of production and, therefore, it faces no deterrent to continue to do so. Environmental pollution must be deterred in a manner that will insure that the benefits of such deterrence are greater than the costs. This can be achieved by regulating the polluter, by taxing him directly, or by subsidizing him to stop his activity. Specific cases can be cited in which each type of deterrence works better than the other two. Hence each type of pollution *should* be dealt with separately in terms of the benefits and costs of a given method of deterrence and control.

6. Protecting Sellers and Consumers. A sixth rationale for government regulation of economic activity is the need to provide to consumers, or sellers, necessary information when the market fails to do so. Information is often expensive to collect but once collected can be made available to everyone. In cases where it is difficult or expensive for a consumer or seller personally to become a well-informed market participant, the government may perform this service for all consumers at once through regulation. For example, the Truth in Lending Act of 1969 requires lenders to state in concise, honest and uniform language the actual costs and terms of consumer credit. A consumer who borrows money to purchase an automobile may be willing to pay a very high rate of interest to get the credit, but cannot make an intelligent decision unless he can determine the "true" rate of interest. Similarly, since the purchasers of stocks and bonds find it difficult and expensive to secure full information on the performance of a company which affects the value of its stocks and bonds, the Securities and Exchange Commission (S.E.C.) requires disclosure of certain information to investors, the result of which is to guard against false financial statements and fraudulent transactions.

Government regulation also seeks to protect the consumer or seller who has unequal bargaining power. The National Labor Relations Act of 1935, for example, strengthened the rights of labor to organize and to bargain collectively with employers in order to give labor a more equal amount of power in its struggles with management over wages and working conditions.

In addition, regulation tries to protect consumers and workers from product dangers and industrial hazards where the private market does this inadequately. The Federal Aeronautics Administration (F.A.A.) requires public air carriers and private airplanes to meet extensive safety standards. The Coast Guard does the same thing for coastal water traffic. The F.T.C. has jurisdiction over unsafe consumer products, for instance inflammable sweaters. Every state has a motor vehicle department which licenses drivers to operate on the public roads, and in many states inspects vehicles for safeness. The police enforce speed and other safe driving laws. Many cities, and counties, inspect and license restaurants and health establishments for sanitary conditions, and rental housing for safety and adequacy of electrical systems, water, sewage, and even structural soundness. In the industrial areas the federal government's Department of Labor administers the Occupational Safety and Health Administration which attempts to insure the safety of work places.

In summary, the six major rationales for government regulation of economic activity have been set forth and may be summarized as follows:

Rationale for Regulation

I. Controlling Natural Monopolies
   a. Public utilities
   b. Government ownership

II. Preventing Destructive Competition (elements of natural monopoly)
   a. Interstate Commerce Commission (railroads, trucking)
   b. Federal Power Commission (gas)
   c. Civil Aeronautics Board (airlines)
   d. Federal Reserve Board, Federal Deposit Insurance Corp., Federal Home Loan Bank Board (banks and thrift institutions)

III. Strengthening Competition
   a. Antitrust laws (Department of Justice and Federal Trade Commission)

IV. Restricting Competition
   a. Retail price maintenance
   b. Patents, royalties, copyrights
   c. Occupational licensure and price fixing
   d. Farm policies

V. Allocating Unspecified or Ill-Defined Property Rights
   a. Airwaves (Federal Communications Commision)
   b. Entry into commercial banking and savings and loan field (Federal Deposit Insurance Corp.)
   c. Environmental protection (Environmental Protection Agency)

VI. Protecting Sellers and Consumers
   a. Lack of information
      1. Truth in lending (Federal Reserve System)
      2. Security dealings (Securities and Exchange Commission)
   b. Unequal bargaining power
      1. National Labor Relations Board
      2. Maintenance of safety standards (Occupational Safety and Health Administration, Federal Aeronautics Administration)
   c. Safety
      1. Consumer Products Safety Commission
      2. Maintenance of safety standards (Occupational Safety and Health Administration)

The Political Environment of Regulation

The considerations cited above provide justifications for government regulation. But regulatory programs are not enacted because of persuasive economic or social arguments. Rather, they come into being because those advocating a particular type of regulation have been able to muster the necessary political power to pass legislation. Similarly, this legislation either stays on the statute books, is altered, or is repealed depending upon the balance of political power. In like manner, regulatory statutes are administered in response to political pressures. Regulatory policy is then a reflection of the group struggle for political influence among regulated and unregulated industries, legislators, administrators, Presidents, and mass membership groups such as unions and those claiming to speak for consumer interests. Because the struggle for group advantage is continuous, the extent and content of regulatory policy are constantly in a state of flux and controversy. Today's regulatory policies are but interim decisions. They reflect only the current balance of contending forces in the political arena that are seeking to shape regulatory policy.

In terms of the political causes of regulation there are two basic theories—the "public interest" theory and the "self-interest" theory. According to the "public interest" theory, regulation results when lawmakers are mobilized by a broad social movement or activated by a dramatic event or crisis. For example, securities regulation followed the crash of the 1920s and came while people were demanding reforms of business practices during the Depression. The "self-interest" theory asserts that regulation results when an industry uses political influence to "obtain legal protection for itself or to impose legal burdens on its rivals." For example, the broadcasting industry sought a regulatory commission in the 1920s to correct what were termed "chaotic conditions" in the industry. Scholars often dispute whether the "self-interest" or "public interest" theory was operative in the creation of a particular regulatory agency. For example, it is asserted by some that the ICC was created as a governmental response to the problems of small farmers and other shippers injured by monopolistic pricing, while others claim that the ICC was created in response to railroads' desire for retention of cartel arrangements. However, neither the "public" nor "self-interest" theory is adequate. Regulation stems from a variety of political causes and an understanding of why regulation occurs requires analysis of the circumstances surrounding the passage of regulatory legislation.[6]

A Cost-Benefit Approach in Analyzing Regulation

James Q. Wilson has written that an understanding of the regulatory process also requires an analysis of how the costs and benefits of regulation are distributed in society.[7]

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[6] James Q. Wilson, "The Politics of Regulation," in James W. McKie, Ed., *Social Responsibility and the Business Predicament* (Washington, D.C.: The Brookings Institution, 1974), pp. 138-139.

[7] *Ibid.;* the material on the following pages is adapted from pp. 138-163 in McKie's book.

Costs can be considered *widely distributed* (e.g., when they are paid through higher taxes or higher prices); a cost can also be *narrowly concentrated* (e.g., when a fee or restriction is imposed on a particular industry).

Benefits can be *widely distributed* (e.g., reductions in the degree of fraud, safer products, lower prices); a benefit also may be *narrowly concentrated* (e.g., a subsidy paid to an industry or restrictions on entry into a line of business).

A. Conditions of Concentrated Benefits and Diffused Costs. When regulation will result in concentrated benefits for a particular organizable group and wide diffusion of the costs, organizations form to propose a regulatory arrangement to institutionalize the benefits. The regulatory arrangement will normally have the following characteristics:

1. Elimination of price competition
2. Entry into the industry will be restricted
3. Organized beneficiaries will strongly influence the regulatory agency
   Examples: State licensing boards, FCC, CAB

B. Conditions of Concentrated Benefits and Concentrated Costs. When both the benefits and costs of regulation are concentrated, the regulatory constraints normally arise out of competition between two or more organized interests. Such a political situation normally results in a regulatory process with the following characteristics:

1. Adoption of a charter spelling out the rights and obligations of the parties.
2. No one organized interest will dominate the administrative structure on a permanent basis.
3. There will be continuing efforts to amend the basic charter or legislation.
4. The issues involved will be of high visibility and both sides will seek to enlist allies.
   Examples: Conflicts between labor and management over labor relations and the policies pursued by the National Labor Relations Board (NLRB); the struggles between large and small retailers over retail price maintenance (fair trade laws); the battle between banks and saving and loan associations over regulation of thrift institutions.

C. Conditions of Diffused Benefits and Concentrated Costs. Regulations have been imposed with increasing frequency on small organized interests that benefit large numbers of persons, who are difficult to organize. Regulatory politics under these circumstances has the following characteristics:

1. Enactment of the regulatory legislation in these circumstances requires focusing public and Congressional attention on an evil and personifying that evil in the form of an industry, organization or corporation.
2. The regulation proposed will be strong and there will be few incentives to accommodate the interests involved.
3. Because of the need to mobilize broad support for the regulation, its content will be shaped as much by the political process involved in passage as by an analysis of the problem.
   Examples: Sherman Anti-Trust Act, Traffic and Motor Vehicle Safety Act, truth-in-lending, truth-in-packaging, air and water pollution control legislation.

The Nature of the Regulatory Process

In all three of the conditions listed above, the process of regulation results in a multiplication of detailed constraints, often in the form of rules by the administering agency:

1. In conditions of concentrated benefits and diffused costs, the administering agency will seek through administrative action to protect the "health" of the industry for the present and future by reducing uncertainty and providing protections from failure (e.g., ICC and common carriers, CAB and the airlines).
2. In conditions of concentrated benefits and costs, the rules will multiply and discretionary authority of administrators will expand as a result of the seesaw battle for agency domination (e.g., labor-management struggles to control the NLRB).
3. In conditions of diffused benefits and concentrated costs, the agency will act to contain the behavior of an industry and thereby prevent the abuses that stimulated passage of the controlling legislation (e.g., Environmental Protection Agency restrictions on auto emissions).

Industry compliance with regulatory rules is encouraged when the rule to be enforced is "highly visible, costs little, and entails no competitive disadvantage." An example of such a rule is the requirement that cigarettes carry a health warning on the package. Antitrust laws or air pollution restrictions have none of these characteristics and are much more difficult to enforce. It has been found that large and prosperous firms tend to comply more readily than small and marginal firms because large firms are more politically vulnerable and visible.[8]

The Agencies of Regulation

Governmental regulatory policy in the United States lacks central direction and coordination, as well as a philosophy. This reflects the diverse purposes for which regulations were instituted, the wide variety of interest groups seeking to influence policy, the three levels of government which have imposed regulations, and the multitude of governmental agencies carrying out regulatory functions. Bureaus, divisions and agencies within departments of the federal executive branch, the courts, and independent regulatory agencies administer federal regulatory statutes. Particularly significant are the independent regulatory commissions. These agencies are considered quasi-administrative and quasi-judicial bodies in that they both administer statutes and also act to adjudicate disputes arising out of regulatory legislation. Federal independent regulatory commissions have the following characteristics:

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[8] *Ibid.*, p. 163.

1. They operate under broad policy directives from Congress, with authority to make rules and issue orders to carry out the policy directives.
2. They are multimember panels, whose members have lengthy and staggered terms.
3. Appointments are made by the President and are subject to senatorial confirmation. Regulatory commissioners may not be dismissed by either the President or Congress merely because these elected officials disagree with the policies pursued by a commissioner.
4. Such institutional arrangements are designed to insulate commissions from the President and normal political influence, and to make the agencies independent.

The commissions are not, however, truly independent. Through the years it has been demonstrated that they are susceptible to congressional and presidential influence. But because the President, Congress and the public generaly do not often take an active interest in regulatory policy, the commissions frequently find that they must cope with pressures brought to bear on them from regulated groups.[9]

Regulated groups operate on a variety of political fronts simultaneously in seeking their policy objectives. The congressional arena is particularly important because of Congress' authority to enact new regulatory legislation and amend existing statutes. Lobbyists for regulated groups therefore pay close attention to the work of congressional committees with jurisdiction over regulatory agencies. They make formal presentations to the respective committees (as when legislation is being considered or oversight hearings are being conducted). But more importantly, they informally advise legislators and their staffs concerning the impact of existing regulatory policies and proposed changes. Of course, they also urge legislators to adopt their viewpoint in as persuasive a manner as possible. This may involve mobilizing a legislator's constituents within a regulated industry to press him for favorable action. Often, lobbyists sharing a common viewpoint with Congressmen and Senators work in tandem in the development of legislation and to muster support for their programs. They also cooperate in generating publicity for their policy in those circumstances where sound strategy dictates the need for arousing broad public support. Sometimes, however, lobbyists and their congressional allies prefer, when dealing with highly technical regulatory matters, that the issues not become the focus of general public debate and concern.

Regulated groups also work through the Congress to exert influence on regulatory agencies. Most regulatory agency personnel are extremely reluctant to go against the predominant sentiments of Representatives and Senators on the committees having jurisdiction over their agencies. Among the sanctions available to the committee members are the following: (1) harsh, critical and disruptive investigatory hearings; (2) budgetary controls; (3) authority to recommend changes in the laws governing the agency; and (4) in the case of Senate committees, action to recommend confirmation of agency personnel. Because these sanctions are always available, regulatory personnel tend to pay attention to congressional sentiments whether expressed publicly on the floor of the House and Senate or privately. Because congressional influence can be substantial, lobbyists frequently seek to exert influence on the regulatory agencies by working through legislators who agree with them on policy issues. Regulatory agency personnel quickly come to understand and can anticipate the political fallout of their decisions and often act so as not to undermine needed congressional support for their agency.

Interest groups also seek to exert influence through their relations with personnel in the executive branch. The White House, like the Congress, has sanctions that it can exert against regulatory agencies. An extremely powerful weapon available to the President, Cabinet officers and White House officials is public criticism. Critical statements about regulatory agencies are certain to gain widespread publicity. In addition, the Administration can recommend legislative changes (to which Congress will almost be forced to give serious consideration) in statutes governing regulatory agencies. The President also influences the budget of an agency, and he appoints and reappoints regulatory commissioners. Commissioners frequently find it extremely difficult to withstand expressions of presidential lack of confidence in their work. Given this arsenal of weapons, it is not surprising that lobbyists for regulated groups often seek to convince Administration leaders of the correctness of their views.

Regulated groups, of course, also have direct contact with their regulators. Formal procedures require that regulated groups be given an opportunity to present their case and provide information. In addition, the nature of regulatory work requires some informal contact and sharing of information between the regulated groups and the personnel of regulatory agencies. As persons engaged in regulation quickly come to realize, all their decisions have political ramifications in terms of how regulated groups, interested segments of the public, Congress and the Administration will react. This frequently comes to be a consideration in regulatory decision-making. Working as they do in a highly politicized environment, regulators are frequently forced to rely on a sense of anticipated reactions in determining what course of action to follow. Controversial decisions of an agency can be sustained only if outside support is available, for instance, from the President, congressional committees, the general public, or interest groups. What gives special strength to interest groups is that their interest in regulatory policy never waivers. Presidents, White House aides, Cabinet officers, Congressmen, Senators, and private citizens have many other interests that compete for their attention and therefore their interest in regulatory policy is infrequent and sporadic. Most regulatory commissioners therefore have incentives to pay attention to the views of the groups which they are regulating.

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[9] For a group theory approach to the political environment of independent regulatory commissions, see David B. Truman, *The Governmental Process* (New York: Alfred A. Knopf, 1962), pp. 416-421.

The Cycle of Regulation

Some students of the regulatory process believe that there is a cycle through which regulatory agencies pass. Marver H. Bernstein has described the life cycle as follows:[10]

> *Phase 1: Gestation.* A lengthy period is frequently required to generate the public attention to mobilize the political support for enactment. This phase may take as long as 20 years (e.g., antitrust legislation) and it frequently occurs following or during a scandal or crisis.
>
> *Phase 2: Youth.* Agencies normally begin their careers as aggressive regulators with a crusading spirit. Their activities often stir considerable controversy and sharp attacks from the regulated sector of the economy.
>
> *Phase 3: Maturity.* As public interest in the regulations diminishes, the agency loses some of its crusading spirit and adjusts to the conflicts among the parties involved. The agency becomes more concerned about protecting its own system and the status quo. It becomes less a regulator and more of a manager of the industry it regulates. For example, it is generally recognized that as the original support of farmers and small shippers for the Interstate Commerce Commission diminished, the ICC became an integral part of the railroad industry, with a commitment to the welfare of that industry.
>
> *Phase 4: Old Age.* At this point, the commission continues to work within the terms of an implicit operating arrangement with the regulated industry. Its routines tend to be fixed and it is status-quo oriented.

Critics of the regulatory process contend that many regulatory agencies are now at the stage of either maturity or old age and that their policies and procedures are not appropriate for modern-day problems. Others assert that many of the agencies impose unnecessary and expensive restraints on business that result in a decrease in productivity and higher prices for consumers.

Have the Regulators Been "Captured" by the Regulated or Vice Versa?

Many observers, such as those espousing the life cycle theory noted above, as well as conservative economists and radical historians believe that regulated industries tend to "capture" their regulators. This occurs, it is argued, because public interest tends to wane after the first wave of enthusiasm for a new regulation. But the interest of the regulated industries in regulatory policy is always intense and they therefore constantly use political pressures to gain influence over the regulatory agency. The success of regulated industries and unions in gaining influence over their regulators, it is claimed, stems not only from a lack of continuing public concern, but from the exposed position of independent regulatory agencies. These agencies are not a part of the Executive Branch and hence cannot expect presidential protection and support if their rulings anger a regulated industry. Nor can they necessarily expect Congress to pay much attention to their day-to-day regulatory rulings or support them in controversies with a legislator's constituents. Lacking strong presidential or congressional support, the agencies often find it necessary to come to terms with the industry they regulate.

Conditions which encourage "capture."

> When governmental policy confers concentrated benefits on a small, organized segment of society and imposes widely distributed costs on a large difficult to organize segment of society, "capture" is encouraged.[11]

The Civil Aeronautics Board is perhaps the best example of the "capture" theory. The CAB has not allowed the chartering of a new trunk airline since the agency was created in 1938. Airline and industry union satisfaction with the *status quo* was demonstrated by their intense opposition to Ford Administration deregulation proposals. The Ford plan would have let new and supplemental airlines compete with trunklines, and would have permitted trunklines to compete more fully among themselves by expanding the routes trunklines could fly without gaining prior CAB approval. It should, however, be pointed out that in serving the industry it regulates, the CAB has been carrying out its legislative mandate. After all, it was created at the request of the industry.

The trouble with the "capture" theory of regulation is that there is a striking array of cases where it does not apply. For example, it is unlikely to occur under the following conditions:

Conditions which make "capture" less likely.

> When a regulatory agency was created out of conflicts between two organized sectors (concentrated benefits and costs) and as the contending

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[10] Marver H. Bernstein, "The Life Cycle of Regulatory Commissions," Chapter 3 in his *Regulation Business by Independent Commission* (Princeton, N.J.: Princeton University Press, 1955).

[11] Wilson, "The Politics of Regulation," *op. cit.*, p. 158.

> forces to influence the agency, "capture" is less likely to occur. Favoritism is likely to develop, but the balance of power is unstable, e.g., labor and management efforts to influence the NLRB.[12]

Prominent examples of "noncapture" can even be found in conditions of concentrated costs and diffused benefits. The Federal Power Commission is not under the thumb of the natural gas producers. The FPC until quite recently has been dictating prices substantially below what the producers have been demanding and has probably been instrumental in discouraging domestic production. The ICC does not today favor the railroads, and as a result the railroads have advocated deregulation. Nor do television stations that have lost their licenses, or networks that have been forced to reduce their prime viewing time consider themselves in control of the FCC. Indeed, there appears to be substantial evidence to support Irving Kristol's observation:

> . . . I have yet to meet an executive in a regulated industry . . . who had the impression that those regulators in Washington were really on his side.[13]

James Q. Wilson has suggested that the actual process of regulation operates roughly as follows:

> . . . An agency is established, sometimes with industry support and sometimes over industry objections, and then gradually creates a regulatory climate of its own. Certain firms will be helped by some of the specific regulatory decisions making up this climate, others will be hurt. But the industry as a whole will adjust to the climate and decide that the costs of shifting from the known hazards of regulation to the unknown ones of competition are too great: it thus will come to defend the system.[14]

The response of the transportation industry to President Ford's proposals to introduce more competition into that economic sector seemed to confirm Wilson's conclusion. As noted above, the airlines and their unions are fighting deregulation. Similarly, the truckers and Teamsters are adamantly against permitting free entry into the trucking business and allowing greater freedom to raise and lower truckers' rates.

While the industry comes to accept and defend the certainties that regulation provides, Wilson believes that the "agencies themselves . . . become preoccupied with the details of regulation and the minutiae of cases . . . trying by the slow manipulation of details to achieve various particular effects that happen to commend themselves from time to time to various agency members."[15] Detailed studies of regulatory decisions of the FPC, for example, reveal no consistent policy preference.

It may well be that regulatory agencies are not so much industry-oriented or consumer-oriented as they are "regulation-oriented." "They are in the regulation business, and regulate they will, with or without a rationale. If agencies have been 'captured' by anybody, it is probably by their staffs who have mastered the arcane details of rate setting and license granting."[16] There is, for example, no evidence that the Antitrust Division of the Department of Justice has operated under any clear or consistent theory. "As far as anyone can tell, the Antitrust lawyers are guided chiefly by their trained habits to find a case that with available evidence and under prevailing court opinions can be made to stick. Any case."[17]

Whether the pattern of regulation be one of "capture" by the regulated, regulator control over the industry, or staff "capture" of agency, the regulatory agencies are probably doing approximately what Congress and its committees intended them to do (e.g., Congress did not intend that competition should govern transportation and the ICC has seen that it has not; Congress wanted conflict between Wall Street and the SEC and there has been ample and continuing conflict). Some regulatory agencies take their cues from the Congress (e.g., the NLRB regularly hears from Congressmen about matters pending before it, and the FCC has checked with key Senators before embarking on a change of policy).[18]

The process of regulation is therefore an incredibly complex process which reflects patterns of industry control, agency dominance, and congressional intervention.

Evaluation of Regulatory Policy

There is no simple economic rule of thumb which will enable one with certainty to decide which types of regulation are desirable and which are not. Much depends on how the regulation is carried out, which in turn is influenced by the political environment of the regulating agency. Each case of regulation should be examined, therefore, individually in terms of the economic costs and benefits involved. In making an analysis of the economic costs and benefits of regulation, it should be kept in mind that:

1. In a market economy, the burden of proof should favor competition. It should not be reduced or eliminated without a convincing showing that the benefits would outweigh the costs.
2. Once a regulatory policy has been established, it has a tendency to become rigid and continue over time, even after the original economic effects have changed significantly.
3. Regulatory bureaucracies tend to take on a life of their own and to have an interest in perpetuating the regulatory agency.

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[12] *Ibid.*, p. 159.

[13] Irving Kristol, "Some Doubts About 'De-Regulation'," *The Wall Street Journal* (October 20, 1975).

[14] Wilson, "The Dead Hand of Regulation," *op. cit.*, p. 47.

[15] *Ibid.*, pp. 47-48.

[16] *Ibid.*, p. 48.

[17] *Ibid.*

[18] *Ibid.*, pp. 48-49.

4. Those adversely affected by a change in regulatory policy (either deregulation or increased regulation) often are relatively few in number but they have strong incentives to resist change and are usually well organized politically.
5. Consumers who would gain from a change in regulatory policy (either deregulation or increased regulation) tend to be numerous with a small potential gain per person. They are seldom well organized and are thus less effective politically.
6. The regulatory process involves significant costs in terms of government personnel as well as in the protection of manufacturing and marketing inefficiencies.
7. The pattern of industry-regulatory agency relations varies significantly from industry to industry, with some exhibiting a pattern of industry "capture," and other agency control. Political intervention from the Congress is also frequent.

The above considerations will assist one in analyzing specific regulatory policies. Ultimately, however, the analyst must make a personal value judgment about what types of regulation are desirable and whether or not the benefits of regulation outweigh the costs.

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Rationale and Objectives

prepared by
George G. Watson Jr.

Rationale

Throughout the history of the United States, as political leaders and citizens have sought to adapt its institutions to changing economic conditions, they have had to resolve conflicts among those who have argued for the sanctity of private enterprise and those who have contended that there was a public interest that ought to be served. In addition to determining what kind of economic problems should be dealt with by government, they have had to decide what role government should play when it acted. Today local, state and national governmental agencies engage in economic planning, operate businesses, regulate businesses, and provide incentives to action by businesses. Students and their families have direct contact with the government as it performs such functions.

Zoning ordinances, public schools, minimum wage laws, depletion allowances, and tariffs are examples of issues often in the news. Less familiar are the day-today activities of the Food and Drug Administration, the Federal Trade Commission, the Federal Communications Commission, the Federal Power Commission and the Civil Aeronautics Board. Yet the actions of these agencies affect the availability and prices of goods and services offered for sale in the marketplace, mandate or prohibit practices on the part of businesses in the name of promoting competition or protecting the public health and safety, and determine allowable profit levels in certain industries.

Increasingly the methods of regulation, the effects of regulation, and the need for regulation are being questioned by businessmen, economists, political scientists and public officials. It is of crucial importance that citizens understand the philosophical and practical issues involved whenever a proposal is made that would substitute government regulation or control for private enterprise decision-making. Questions about the role that government should play in the economy are among the more complex and more controversial problems with which our society must cope. John F. Bibby and Leon Schur have explored the problem of government regulation from the joint perspective of the disciplines of political science and economics. The learning activities which follow are designed to involve students actively in the specifics of the issues that were identified.

Individuals participate in the economy as consumers, producers and citizen-voters. Secondary school students will ordinarily have had more experience in the first two roles than in the third. The avowed goal of citizenship education is informed participation in the political processes. Since much of the material available about government regulation is produced in behalf of or in opposition to particular programs, students need experience in analyzing the costs and benefits of alternative methods of achieving the same social goals.

One of the consequences of analyzing public issues in the classroom is controversy. Even when the facts of the situation are not in dispute, students will bring the values of their own frames of reference to bear upon the proposals being considered. If students are taught how to intervene in order to influence the regulatory process, they may choose to use their knowledge. Letters to public officials, testimony at public hearings, lobbying, picketing and demonstrations can result. There are numerous risks involved.

The learning activities of this unit encourage students to act on their convictions because the risks of student apathy preparing for a lifetime of citizen apathy have been judged greater than the risks of stirring up controversy. Controversial issues are not only an appropriate but an essential part of social studies instruction. So long as teachers are careful not to impose their own values and/or specific positions on issues upon their students, to select issues that can be adequately studied within the time available, and to provide access to the full range of positions on the issues, it is reasonable to anticipate satisfactory results.

Objectives	**Activity Implementing Objective**
1. Given a problem situation involving governmental regulatory action, students will:	
a. identify the problem that prompted the governmental action.	Nos. 1, 2, 6, 8, 9, 10
b. describe the costs and benefits involved before and after governmental action.	Nos. 2, 6, 8, 10
c. identify the regulatory agencies that have power and/or authority for dealing with the problem.	Nos. 5, 8, 9, 10
2. Given a problem situation involving the question of whether governmental regulation is needed, students will:	
a. state the issues as perceived by various groups involved.	Nos. 3, 6, 7, 8, 10
b. describe the costs and benefits of alternative courses of action for dealing with the problem.	Nos. 1, 2, 3, 8, 10
c. based on consideration of relevant economic and political information, evaluate proposed legislation and/or alternative actions advocated by various interest groups.	Nos. 1, 3, 7, 8, 10
d. formulate their own personal positions relative to the course of action that should be taken for resolving the problem.	Nos. 3, 8, 10
3. Given a situation describing attempts by individual citizens to influence governmental action, students will:	
a. describe the problems confronted by individuals who wish to exert influence on policy decision-makers.	Nos. 4, 9, 10
b. suggest alternative actions available to citizens for influencing policy decisions.	Nos. 2, 4, 10

For ease in duplicating the classroom handouts, all student materials are found at the back of this volume.

Instructional Activities

prepared by
George G. Watson, Jr.

Instructional Activity No. 1

Mapleville's Dilemma

Recommended Use: Senior High School Economics or Problems of Democracy courses.

Time Required: Two-three 45-minute class periods.

Materials Required: Multiple copies (one for each student) of Student Reading No. 1.

Rationale: Students should be aware of the potential economic consequences of local government action or inaction. Although the case is one involving government self-regulation, there are effects on citizens and businesses outside of Mapleville's jurisdiction. The dilemma situation is realistic in that decision-makers are often confronted with conflicting "expert testimony."

Concepts: Rational decision-making, negative externalities (third-party costs), positive externalities (third-party benefits), authority, power, public policy, institutions, participation.

Instructional Objectives: Given the case study, "Mapleville's Dilemma," a series of discussion questions, and classroom discussion activities, students will:

1. identify the problems which prompted the proposed governmental action in the case.
2. describe the costs and benefits of governmental action or lack of action.
3. reach a position on the proposed legislation based on a consideration of relevant political and economic information.

General Notes to the Teacher

This case may be used to demonstrate both the similarities and differences between economics, a social science, and the natural sciences. Economics utilizes the scientific method of problem-solving and relies on models to simplify complex phenomena in order to analyze them. Unlike the natural scientist, however, the economist cannot conduct controlled laboratory experiments. As he or she tries to analyze the real world, the economist may even have difficulty identifying the relevant variables to investigate.

Economics has often been called the science of choice-making. Every individual, community and society must decide how to allocate scarce natural, human and capital resources, and the real costs of such decisions are the alternative uses not selected. This case is an example of a situation in which all costs are not reflected in the price of the service provided. Corrosion, dead trees and contaminated water supplies are examples of third-party costs. Any attempt at cost-benefit analysis should include estimates of these costs.

The case also should stimulate a discussion of the importance of social overhead capital. If a decision is made not to salt, will third-party costs be incurred by businesses that use Mapleville's roads when transporting their products? Have they been recipients of third-party benefits in the past?

Because there are issues raised by the case which cannot be decided based upon the data provided, students should be encouraged to use economic models and concepts to formulate analytical questions for further investigation. It may also be suitable as a value-clarification exercise. John Winslow's decision will not be automatic once the economic analysis has been made. Even after the probable consequences of the available courses of action are known, value judgments must be made. If several of one's values are in conflict, they must be ordered and/or compromised. John must finally vote for or against the ban on salting.

Teaching Strategy	**Pupil Activity**
1. Distribute Student Reading No. 1 (case study with discussion questions). Ask students to read the case study and to take a position on discussion question No. 5. (Discussion questions are provided at the end of the student reading.)	Read the case study and take an initial position.
2. Poll the class as to their positions, allowing for an undecided category.	
3. Organize the class into small groups (3 to 5 students each). As far as possible, each group should have a balance of "pro" and "con" positions. Assign each group the following tasks:	
a. Discuss and record answers to discussion questions 1 through 4.	Complete small group tasks.
b. Identify the issues over which members of the group are divided.	Report results of small group deliberations and compile a master list of answers, issues and proposed actions.
c. Suggest other actions open to John Winslow beyond a "yes" or "no" vote on the proposed article.	
4. Total class discussion:	
a. Pose the following question for discussion: "What is John Winslow most likely to do?"	Assess alternative actions proposed in Step 3 in terms of costs and benefits.
b. Poll the class. (Discussion of the results of the	Identify the action that the student thinks John Wins-

class vote can be used to highlight questions of fact and to separate them from questions of frame of reference and individual value preference.)

5. *Evaluation:*
   a. Assign the following: Based on our discussions of the Mapleville's Dilemma case, write a statement to be made by John Winslow to a group of constituents who oppose his stand on the salt ban article. Be sure to show your understanding of both sides of the issue and how you weighed costs and benefits in reaching your position. (You are free to cast either a "yes" or a "no" vote on the article.)
   b. Suggested criteria for evaluating student papers:
      (1) Specific arguments from the case pro and con road salting.
      (2) An estimate of costs and benefits of action vs. no action.
      (3) A consistent argument supporting the vote cast by John Winslow.

low is most likely to take and state the reasons underlying this choice.

Complete written assignment.

Suggested Follow-up Activities

1. One way to approach this case is to prepare question No. 5 immediately after reading the case. The Mapleville Town Meeting should then be held with a few students taking roles as proponents or opponents of the ban on salting in order to get the debate started. This debate might take place in a City Council or Board of Aldermen rather than in a New England Town Meeting. The setting chosen was selected so that John Winslow would be an ordinary citizen rather than a public official who might be expected to be better informed on the issues.

2. The Mapleville case has a number of real life parallels. Students may investigate these using the *Reader's Guide to Periodical Literature* as a starting point.

3. There is a Virginia based Salt Institute which publishes standards for salt use based on an average of four applications per storm per two-lane miles of highway. Check with your community's superintendent of highways or public works to obtain the recommendations and practice followed by his department.

4. Visit the local superintendent of highways or public works or invite him/her to meet with your class to discuss local procedures of snow removal. You should prepare a list of questions to be sent to the person before the meeting.

5. The state of Minnesota has banned the use of de-icing salts from its roads except at major intersections and steeply graded inclines. The federal Environmental Protection Agency is concerned about salt in drinking water. The Federal Highway Administration takes the view that salt is necessary for ice-free highways. You can write to each of these sources for additional information. Look for contradictory stands by different agencies of the same level of government.

6. Road salting is only one way local governmental agencies may be involved in damaging the environment. Solid waste disposal, burning of fuel in public buildings, and sewage may produce air and water pollution. Investigate the ways your community handles these potential problems. Bring a camera and/or a tape recorder so that your findings can be shared with fellow students.

Student Reading No. 1

Mapleville's Dilemma: A Case Study

John Winslow read the headline on the front page of his copy of the Mapleville *News*, "MAPLEVILE TOWN MEETING TO CONSIDER BAN ON SALT USE." He eased into his favorite chair and carefully read the account of the proposed ban on the use of salt for highway snow removal. Considering the strong feelings which this issue had aroused in the community, the article was a surprisingly unemotional recounting of the events which had led to the present controversy.

John thought back to the first letter to the editor blaming highway salting for the killing of many of the maple trees which had given the town its name. Each week thereafter road salting was attacked in letters from people who claimed that it had caused damage to their cars, grass and shrubs, private concrete walks and driveways, and town-owned storm drains.

Then it was discovered that salt stored near the Department of Public Works garage was filtering into the town's wells and contaminating its water supply. John recalled that the letters which followed that disclosure bordered on the hysterial. Stories about elderly people on low-salt diets being poisoned by water and rumors that the public water supply was about to be declared unfit for human consumption were widely circulated. Several neighbors had called John in near panic to urge that he support a campaign to ban the use of salt on the roads.

As the town meeting approached, an all-out effort was mounted to end highway salting. A 26-page booklet documenting the case against salt was published, complete with a substantial bibliography of additional sources of information. The local Audubon Society announced that it favored the ban against salt.

In response the National Salt Institute circulated scientific studies among influential Mapleville citizens which seemed to demonstrate the efficiency and economy of salt while they simultaneously discredited the arguments of those who opposed the use of salt:

1. The contamination of Mapleville's water supply had been caused by improper storage of the town's salt supply, not by highway salting.
2. The maple trees were dying because of a combination of factors such as high air flow, sunlight, compacted earth and pavement over root zones, and gasoline and diesel emissions.
3. Newer automobiles have better anticorrosive coatings which should diminish the problem of damage to automobiles from salt.
4. People on low-salt diets should be drinking distilled water. The level of salt in the water supply has always been far below the maximum allowable level.

A National Salt Institute spokesperson insisted that "The most important consideration, moreover, is human safety. Since the other de-icing agents are more expensive than salt and as dangerous to the environment if improperly stored and since salt is both less expensive and more efficient in keeping pavement clear than abrasives such as sand and cinders, salting must be the preferred method." Mapleville's own Superintendent of Public Works was quoted as saying, "There's no substitute for salt. Sand won't do the job with falling snow, but salt laid on the road before the snows begin will continue to keep the pavement clear."

In answer to the National Salt Institute claims, the opponents of salting cited National Safety Council data which indicated that only 2.4 percent of all fatal and 5 percent of nonfatal accidents occurred during snow and ice conditions while 81.6 percent of all fatal and 75.6 percent of all nonfatal accidents occurred on dry pavement. They further suggested that since drivers tend to exceed safe speeds on salted roads and since salt spray on windshields reduces drivers' vision, de-icing salt may actually lead to an increase in highway accidents.

Preliminary figures from towns that had already instituted a program of plowing and sanding (including removal of accumulated sand in the spring) showed significant cost reductions rather than the increases predicted. Whether Mapleville would experience similar savings was an important unanswered question.

John put down his paper still undecided. He knew he disliked driving on ice and snow and had accepted the corrosive results of salt working on his automobile as a necessary evil. The debate had made him question whether it was safety or convenience that salt provided. Did he simply want to be able to drive faster? . . . Were the environmental consequences as serious as the antisalt people claimed? . . . He surely wouldn't want to lose the maple trees on his street. . . . but if the town banned salt and a school bus were involved in a serious accident. . . . Tomorrow he had to vote at town meeting. . . . How would he ever make up his mind?

Discussion Questions

1. Economics and Political Science are social sciences which means that they use a scientific method of problem-solving. Theoretically, the social scientist first recognizes and defines a problem, identifying the conflicting goals or values involved. He/she determines what alternatives are available and assesses the probable consequences of selecting each of them. Finally a choice is made from among the alternatives.

   In reality the social scientist may reach the point of decision-making in as unsystematic a fashion as John Winslow. Sometimes it is helpful to reorganize the available information according to a model. Suppose for the moment that John had been trained as a social scientist. How would he have described Mapleville's problem? What alternatives might the town meeting consider?

2. When trying to determine the probable consequences of each alternative course of action available to the citizens of Mapleville, the economist would probably engage in a cost-benefit analysis. What are the costs of road salting? Of the other choices? How might a dollar value be assigned to the benefits received from each alternative?

3. Economists measure the real cost of any good or service in terms of the alternative uses of scarce resources (natural, human and capital) foregone. Occasionally costs are incurred by people other than the producers and consumers of a particular good or service. Are there any of these *third-party costs* in the Mapleville case? If so, how might they be measured? How would their presence affect your answer to question No. 2?

4. John Winslow is confused by the claims of both the supporters and the opponents of the ban on road salting. A number of these claims involve technical questions which scientists might help to answer. Suppose Mapleville were to hire a team of scientific consultants. What questions should they be asked to investigate?

5. If you were John Winslow and had only the information provided in the case available to you, how would you vote on the proposed ban on highway salting? Why would you take that position?

Instructional Activity No. 2

Steeltown's Crisis

Recommend Use:	Senior High School Economics or Problems of Democracy courses.
Time Required:	Two-three classroom periods.
Materials Required:	Multiple copies (one for each student) of Student Reading No. 2.
Rationale:	A major purpose of this activity is to introduce students to the complexity of government regulation—especially regulations used as a remedy for market transactions that produce health hazards and/or unacceptable costs to third parties. This case is deliberately written from the point of view of a business executive to mitigate the difficulties involved in a diffused-benefits, concentrated-costs situation.
Concepts:	Cost-benefit analysis, negative externalities (third party costs), authority, power, public policy, institutions, participation.
Instructional Objectives:	Given the case study, "Steeltown's Crisis," a series of discussion questions, and classroom discussion activities, students will: 1. identify the problem which prompted governmental action in the case. 2. describe the costs and benefits involved before and after governmental action. 3. formulate a plan of action for the manager of the American Steel Corporation plant in Steeltown. 4. recognize the potential conflict involved if actions designed to reduce health hazards and/or costs to third parties result in reduced employment, higher prices and less competition in an industry.

General Notes to the Teacher

This case is centered about the idea of third-party costs, sometimes referred to as social costs or spillovers, and alternative ways of meeting such costs. The selection of a problem with an obvious technological solution was made deliberately in order to emphasize the nature of the economic decisions.

Students should make use of economic models and concepts to support their hypotheses as to why Steeltown's companies had not installed antipollution devices voluntarily. What would happen if some firms cut back on their emissions and others did not? Why might workers whose families suffered the ill effects of the air pollution support the companies who were resisting the installation of new antipollution equipment? Why couldn't the steel companies get together to formulate a plan for reducing emissions?

The suggested follow-up activities include the consideration of alternatives to direct action by the Environmental Protection Agency and the courts in times of crisis. More complex situations involving research and development costs before emissions can be reduced may also be considered.

Finally, students ought to realize that some or all of the increased costs of producing steel will be passed on to consumers in the form of higher prices for products that are made of steel. If the price of steel rises, it is likely that users of steel will substitute less expensive materials wherever possible.

Teaching Strategy	**Pupil Activity**
1. Ask each student to read the case study and to make a list of Robert Chamberlain's alternatives.	Read case study and compile list of alternatives.
2. Organize the class into small groups (3 to 5 students per group). Assign each group the following tasks: a. Make a combined list of alternatives from the lists made up by the group members. b. Discuss and list the costs and benefits of each alternative (indicate who will benefit and who will pay in each case). c. Rank alternatives in order of desirability from Robert Chamberlain's point of view. d. Rank alternatives in order of desirability from your own perspectives. Reach a consensus if at all possible.	Discuss case study in small groups and complete assigned group tasks.
3. From information provided in group reports, have the students compile a master list of alternative costs and benefits.	Report results of small group deliberations to entire class and participate in compilation of master list.
4. Total class discussion: a. Question for discussion: "What is Robert Chamberlain most likely to do?" b. Based on student responses, select additional questions for discussion from the list provided on pages 29-30.	Participate in class discussion.
5. *Evaluation:*	
a. Writing assignment: Based on our discussion of the Steeltown Crisis case, evaluate this statement made by a Steeltown mayoral candidate: "This action by the EPA is just one more example of how government overregulation is wrecking the free enterprise system. In the name of protecting our environment they are about to destroy Steeltown's economy." b. Suggested criteria for evaluating written assignment: (1) Mention of the problem which prompted the EPA action. (2) Discussion (pro or con) of the position that a crisis existed at the time the EPA acted. (3) Specific references to the costs and benefits involved before and after the EPA action.	Complete written assignment.

(Measure of success on this criterion will depend upon the master list compiled during the total class discussion.)

(4) Specific arguments for or against government regulation in this case.

Suggested Follow-up Activities

1. The Environmental Protection Agency has acted to close down plants under the Clean Air Act of 1970. It has also issued orders requiring polluters to cut emissions by specified percentages. Consult the *Readers' Guide to Periodical Literature* for additional information.

2. There was a ready technological solution to the Steeltown pollution problem. Firms could have complied with strict EPA emission standards. The EPA has issued 1975 standards for six major pollutants that will affect just about every major industry. It has been claimed that not only will it be expensive to comply but the necessary technology for eliminating certain of the prohibited gases is not yet commercially available. What would you expect to happen if the standards are not met? Will the factories be closed down? Why or why not?

3. Air pollution is no respecter of state boundaries. Citizens of Vienna, West Virginia, long complained about the tons of sulfur dioxide and fly ash dumped upon their community by Union Carbide Corporation's ferroalloy plant across the Ohio River in Marietta, Ohio. After many years of controversy, the EPA ordered the use of low-sulfur coal in Carbide's power station, and new equipment to be installed to cut sulfur dioxide emissions by 70 percent.

   Carbide claimed that approximately 625 workers' jobs out of a total of 1500 would have to be eliminated in order to meet other federal deadlines. Ralph Nader charged that Carbide was engaged in "environmental blackmail" and suggested that legislation to protect workers from loss of jobs because of shutdowns due to environmental regulation may be needed.

   The *cost* of using resources in one way rather than another is what is sacrificed, i.e., the alternative goods and services that could have been produced with those resources. *Opportunity Cost* is the economic concept used in discussing such situations. What was the opportunity cost of reducing Carbide's emissions? Who should have borne this cost? If you had been a citizen of Vienna, how would you have wanted the problem resolved? Mayor of Vienna? Carbide plant manager? Worker in the Carbide plant? EPA administrator?

4. The EPA emission standards will affect most citizens directly. It has been estimated that controlling sulfur oxide emissions alone could cost $2.5 billion, with most of it passed on in the form of higher electric bills. Since the technology for trapping the offending gases is not yet perfected, power companies must shift to low-sulfur fuels, primarily natural gas. To do so natural gas production must increase by 15 percent. At the same time utilities are not regarded as good investments and may find it hard to raise the funds necessary to convert old plants, build new plants, and conduct needed research.

   Who should pay the price for pollution-free power? Should large users continue to receive lower rates?

Questions for Class Discussion

1. What is Robert Chamberlain's problem? What possible choices does he have?

2. Identify the various groups of citizens involved in Steeltown's crisis. How might each of Robert Chamberlain's possible choices affect each of these groups?

3. Why might a plant manager like Robert Chamberlain prefer that the federal government mandate a level of "safe" emission standards? Why wouldn't voluntary actions solve the problem?

4. What factors would you consider if you were analyzing the contribution made to Steeltown by its companies?

5. Are there third-party costs incurred by people other than the producers and consumers of the products made in Steeltown? Who should pay these costs? How can they best be assessed?

6. Why do you suppose Steeltown's companies had not installed antipollution devices? What would happen if some firms cut back on their emissions and others did not?

7. Why might workers whose families were suffering the ill effects of the air pollution support the companies that were resisting the installation of new antipollution equipment?

8. Why couldn't the steel companies get together to formulate a plan for reducing emissions?

9. What might happen to the price of steel if antipollution devices are installed?

10. How might changes in steel prices affect the prices of other goods, such as automobiles?

Student Reading No. 2

Steeltown's Crisis: A Case Study

Steeltown's crisis began early on a November Monday when a temperature inversion settled in over the city. By Tuesday morning the pollution count was dangerously high, and children and people with respiratory problems or heart disease were warned to stay inside and to avoid physical exertion. County health officials sent telegrams to the city's 23 companies asking that emissions be cut off by 60 percent until the emergency situation was ended. Although some firms acted immediately, emissions were down by only 20 percent on Wednesday.

At that point federal officials from the Environmental Protection Agency decided to act. Invoking emergency powers provided by the Clean Air Act of 1970, the general counsel for E.P.A. sought and obtained a court order halting the production of all 23 of Steeltown's plants. When the companies started to bank their furnaces on Thursday, there was a significant improvement in the level of emissions. A saving rain broke the inversion, and the immediate crisis was over.

Steeltown had had emergency situations before. Pollution had reached danger levels 65 times prior to this crisis, and there had been a serious situation in March. Federal intervention by the E.P.A., however, had introduced a new element. Several of the companies considered suits against the federal government to recover damages incurred when production was halted. Sensitive to the lay-off of 5,000 workers and the loss of $400,000 in wages, labor union officials prepared to negotiate for contract clauses protecting against wage losses when plants were shut down during such emergencies.

The worst part of the crisis was that it need never have occurred. The technology for removing the tons of soot that each day poured out of Steeltown's stacks had been available for many years. Some of the larger companies now might take the necessary steps to modernize their operations over the next two to three years. Several of the smaller firms would not be able to absorb the traditional costs, however, and some Steeltown workers would face permanent loss of their jobs.

Robert Chamberlain, recently appointed manager of the American Steel Corporation plant in Steeltown, had been one of the first to comply with the request of county health officials. Like other plant managers he had early acknowledged pollution problems in Steeltown but had been unable to contribute much to their solution. Until the parent corporation gave the environment top priority he could not justify a request for the $12 million that would be needed for pollution control.

Chamberlain believed that the E.P.A. action might work for the benefit of the American Steel Corporation. They could afford the additional expenditures and might well recover their costs through the use of byproducts recovered. Furthermore, he believed it would be but a short time until American Steel would face class-action suits for environmental damages brought by outraged Steeltown citizens.

Chamberlain also knew that there were company executives who disagreed with him, that not all stockholders would support spending to abate pollution, and that the prospect of falling profits might jeopardize his career with the company.

SHOULD ROBERT CHAMBERLAIN RECOMMEND A $12 MILLION EXPENDITURE FOR POLLUTION CONTROL DEVICES?

Instructional Activity No. 3

Center City's Problem

Recommended Use: Senior High School Economics or Problems of Democracy courses.

Time Required: Two-three classroom periods.

Materials Required: Multiple copies (one for each student) of Student Reading No. 3.

Rationale: The major purposes of this activity are to introduce students to the complexity of government regulation under our federal system, to encourage objective analysis of questions of fact, and to promote understanding of the value conflicts involved in political and economic problems. The case study used in the activity illustrates the effect of the sum of many individual decisions to drive cars into Center City. No one individual is responsible for the problem that exists, and governmental action seems unavoidable. A major difficulty in this and similar situations comes in defining the nature of the problem and evaluating alternative solutions.

Concepts: Cost-benefit, authority, power, public policy, institutions.

Instructional Objectives: Given the case study, "Center City's Problem," and a series of classroom discussion activities, students will:

1. identify the problem as perceived by the various groups affected by it.
2. describe the costs and benefits of alternative courses of action for dealing with the problem as seen by each of the groups.
3. formulate their own positions and evaluate an unfamiliar position statement.

Teaching Strategy	**Pupil Activity**
1. Ask each student to read "Center City's Problem" and to define briefly the problem as it might be perceived by George Graham, his employer, the EPA officials, Center City's public officials, citizens who live in the path of the proposed highways, and Center City's traffic engineers.	Read the case study and describe the problem from the perspective of the various individuals and groups involved.
2. Organize class in small groups (3 to 5 students per group). Assign the following tasks: a. Share the individual problem statements and agree upon a group description of the problem from each of the suggested perspectives. b. Compile a list of alternatives open to Center City's public officials.	In small groups, discuss the case study and complete assigned tasks.

c. Discuss the costs and benefits of each alternative as perceived by each of the parties involved.

d. Rank the alternatives in order of desirability from each of the perspectives. (It is suggested that a matrix showing the rankings be used to organize the data.)

SAMPLE MATRIX

	RANKINGS						
Alternatives	George Graham	Employer	EPA officials	Center City officials	Citizens	Traffic engineer	Student group

e. Rank the alternatives from the student group's perspective and add that information to the matrix.

3. Total class discussion:

a. Set up a master matrix as each group reports the results of its deliberations. Ask for reasons behind the ranking whenever it is unclear as to how the group arrived at its decisions.

Report results of small group discussions.

b. Discuss similarities and differences among the groups.

Participate in class discussion.

c. Question for discussion: What is Center City likely to do? What will happen then?

d. Based on student responses select additional discussion questions from those provided on page 36.

4. *Evaluation:*

a. Assign the following essay question:
Based on our discussion of the Center City problem case, evaluate this statement: "There are two problems that have to be solved—one is the transportation problem and the other is the pollution problem. The EPA is only concerned about the pollution problem; the future of our cities depends on solutions to both. It is clear that no form of public transportation can match the flexibility of the passenger automobile. Reducing parking only intensifies the transportation problem. The EPA should concentrate its efforts on the development of a pollution-free automobile."

Complete written assignment.

b. **Suggested criteria for evaluating student essays:**

A student will have successfully completed this activity if the required essay contains the following:

(1) Recognition of the oversimplifications in the statement quoted.

(2) An awareness of the other problems that passenger automobiles create in addition to pollution.

(3) Discussion of the costs and benefits of the alternatives considered in the essay.

Suggested Follow-up Activities

1. Center City's problem must be faced by its citizens and those public officials charged with governing the city. Assume that your community faced this problem, and prepare a position paper for the chief executive which outlines the alternative courses of action open to him, the probable costs and benefits of each of these alternatives, and your recommendations for action to be taken.

2. A Washington-based group of concerned environmentalists organized the Highway Action Coalition. Environmental groups such as the Sierra Club, Audubon Society, and Zero Population Growth have joined forces to support efforts to have money from the Highway Trust Fund allocated to mass transit systems. Consult the *Readers' Guide to Periodical Literature* and prepare a report on the activities of this organization.

3. The excerpt and table below present Federal Emission Standards for passenger cars and light trucks. While the automobile companies are making efforts to comply with these standards, the industry is trying also to delay their implementation by convincing the Environmental Protection Agency that the necessary technology is not available and that the industry has made the effort to comply in good faith.

> The first attack on air pollution was mounted by the states as one by one they enacted laws governing their jurisdictions. The Congress followed with a series of laws intended to provide a framework for cleaning up the air throughout the nation in a concerted, comprehensive fashion. The most important of these federal laws were the Clean Air Act of 1967 and the Clean Air Act Amendments of 1970.
>
> The 1967 act embodied the concept that air cleanup required a national effort, but it specified that the states should retain primary authority and responsibility for doing so. The 1970 amendments provided for development and enforcement of two kinds of standards for ambient air quality—"primary" standards necessary to protect health and "secondary" standards desirable to protect welfare, including property and aesthetics. The amendments' stated goal was achievement of primary standards throughout the nation between 1975 and 1977.
>
> The amendments also set forth a two-part strategy for attaining this goal. First, the federal Environmental Protection Agency was to establish air quality standards for six major classes of pollutants: particulates, sulfur oxides (SO_2), hydrocarbons (HC), carbon monoxide (CO), oxides of nitrogen (NO_x), and photochemical oxidants. EPA promulgated standards for each class in November 1971.
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> • • •
>
> Although the Clean Air Amendments of 1970 established very specific

goals for reducing major pollutants from automobiles, they allowed delays in implementing certain standards. The act also authorized EPA to use its regulatory authority to reduce congestion and auto dependency in urban areas. A number of efforts to use this authority have caused considerable controversy in the intervening years.

Automobile Emission Controls The 1970 amendments required a 90 percent reduction below the 1970 model year levels in HC and CO emissions by the 1975 model year and a similar reduction in NO_x below 1971 model year levels by 1976. The act authorizes the Administrator of EPA to determine—under established criteria—whether to extend each deadline by 1 year. Such an extension was made in April 1973 for the 1975 standards, with interim standards promulgated to replace the statutory requirements. Table 1 compares the original statutory standards with uncontrolled emissions and with various changes and proposed changes.

In 1974 the Congress passed a series of amendments to the Clean Air Act in the form of the Energy Supply and Environmental Coordination Act. For mobile sources this act extends the 1975 HC and CO interim standards through 1976 and also gives the Administrators of EPA authority to prescribe interim standards for 1977 instead of following the statutory standards. The original statutory standard for 1975 will become effective in 1978. The law does not allow for suspensions of the NO_x standard and sets a new statutory standard for both 1977 and 1978.

Table 1
Automobile Emission Standards
(In grams per mile)

	HC	CO	NO_x
Uncontrolled cars (pre-1968)[1]	8.7	87.0	3.5
1970-71 federal standards[2]	4.1	34.0	
1972-74 federal standards[2]	3.0	28.0	3.1
1975[3] and 1976[4]			
Federal 49-state standards	1.5	15.0	3.1
California standards	0.9	9.0	2.0
1977[5] federal 50-state standards	1.5	15.0	2.0
1978 statutory standards	0.41	3.4	.4
Administration bill (January 1975)			
1977-81 50-state standards	0.9	9.0	3.1
Post-1981 50-state standards	([6])	([6])	([6])
EPA recommendation (March 1975)			
1977-79	1.5	15.0	2.0
1980-81	0.9	9.0	2.0
Post-1981	0.41	3.4	([6])
Revised administration proposal (June 1975)			
Through 1981	1.5	15.0	3.1
Post-1981	([6])	([6])	([6])

[1] On the basis of 1975 test procedures.

[2] Imposed administratively by EPA.

[3] Imposed by EPA as interim standards after suspension of statutory standards, except for California's HC and NO_x standards, which were set by the state.

[4] Imposed by Congress in Public Law 93-319, except for California's NO_x standards, which were set by the state.[6]

[5] Imposed by EPA as interim standards after suspension of statutory standards, except for NO_x standards, which were imposed by the Congress (Public Law 93-319).

[6] Administrative discretion.

SOURCE: *The Sixth Annual Report of the Council on Environmental Quality*, United States Government Printing Office, 1975, pp. 44, 52-54.

4. Because mass-produced automobiles are not identical, there will be variations among vehicles' emission performance. These vehicles will also deteriorate with use. Mileage based on test-track driving is not the same as mileage based on owner use over longer periods of time. Industry testing, therefore, may or may not be a sound basis for judging the potential performance of vehicles.

How can such deterioration as might occur be minimized? What is the practice in your household in such matters? Does your state mandate certain practices?

5. The automobile industry has continued to explore alternatives to the conventional piston engine at the same time it has been working to lower emissions to meet Environmental Protection Agency requirements. Wankel engines, turbine engines, and battery-powered electrical engines are all being considered. Select one or more of the alternatives being considered by the industry and determine the following:
   a. Which auto companies are doing research on this product?
   b. What are the potential advantages which it has over the conventional piston engine? Potential disadvantages?
   c. What technological problems need to be solved before this type of engine becomes practical? Economic factors should be considered as well as technical ones.
   d. Does this alternative deal only with the pollution problem or does it deal also with the traffic control problem? How?
   e. Will this alternative help to alleviate or contribute to the energy crisis forecast for the next several decades?
   f. What would it cost to convert the automobile industry to this type of engine? How long would it probably take?

6. Prepare a position paper in favor of or opposed to the following statement:

   "Transportation planning should be directed towards automobile use because the automobile is the most rational form of transportation presently available."

Questions for Class Discussion

1. Under what circumstances might George Graham seek an alternative form of transportation? Why?

2. What is the nature of Center City's problem? Is there more than one problem involved? Explain.

3. Assume that Center City's automobile commuters will continue to drive to work, how might the morning traffic jam be alleviated? Include both voluntary and compulsory programs.

4. What would be the costs of each of the possible programs you have identified? State these costs in terms of alternative uses of resources given up to achieve the programs rather than in dollars and cents.

5. To what degree is Center City's problem subject to technological solutions? Who has the necessary skills to develop such solutions?

6. Suppose state officials decided to go ahead with construction of the proposed limited-access highways. Would they solve Center City's commuter traffic problem? Why or why not?

7. What would be the real costs in terms of resources and the social costs in terms of effects on local residents of building the limited-access highways? Are the opponents obstructionists as George Graham believes?

8. The air pollution problem caused by auto emissions is an example of third party or social costs. George Graham and others like him contribute to Center City's problem. How can they be made to face the unintended consequences of their acts? Should they be required to pay the costs incurred? How could these costs be computed and assessed?

Student Reading No. 3

Center City's Problem: A Case Study

Each morning Monday through Friday George Graham leaves his home in suburban Waterford and drives twelve miles to his office in Center City. As befits his executive status, George drives a medium-price sedan. It is now three years old, and he contemplates trading up to a more expensive model in the spring. Next to his home his automobile is the most valuable property he owns, and he and his family would have difficulty getting along without it. George expects that the excellent care he has given his car will assure him a high trade-in value.

Like most of his fellow workers, George drives to work alone. A few months ago his firm began to give preferential parking spaces to drivers with two or more passengers. George considers his freedom to use alternative routes or to stop off on errands on the way home to be an important advantage of driving to work, and he is not interested in restricting that freedom by taking on the responsibility of passengers. An early arrival time has so far insured him of adequate parking space.

George's office opens at 9 a.m., and although it normally takes him about thirty minutes to get from his home to his desk, George sets out at 8:00 a.m. and arrives thirty minutes early for work each morning. Traffic patterns are such that waiting until 8:10 a.m. would add twenty minutes to his travelling time on the average and cause him to be late for work frequently in bad weather.

George believes that the delay in the construction of limited-access highways is the source of his difficulty, and be blames the state's inaction in the face of this problem on politicians and their constituents whose districts are in the paths of the routes which have been planned. He has little sympathy with these obstructionists who jeopardize the economy of Center City and the well-being of its citizens by stalling action on these needed routes.

The problem is not as simple as George believes. Center City is one of the cities required by the Environmental Protection Agency to develop a comprehensive plan that will significantly reduce air pollution by 1975. Since automobile emissions account for 60 percent of Center City's problem, George and drivers like him have been receiving the attention of the city's public officials. To them he is a major part of their problem.

The city traffic engineers are aware that slow-moving traffic produces extra pollution, because cars operate less efficiently in stop-and-go situations. They share George's desire to eliminate the early morning congestion. It was at their suggestion that George's employer and others instituted the policy of reserving parking spaces for drivers with passengers. Although the practice has not been in effect long, the response thus far is not promising.

Attempts to upgrade the service on Center City's transit line have thus far not produced an appreciable increase in commuter use of these facilities. The advocates of balanced transportation have not convinced suburban automobile owners to shift to public transportation.

WHAT SHOULD CENTER CITY TRY NEXT?

Instructional Activity No. 4

Citizen Harold

Recommended Use:	Senior High School Economics or Problems of Democracy courses. It is strongly recommended that teachers preview the film before using it with their classes.
Time Required:	One class period plus follow-up activity. (The complete running time of the film is 9 minutes.)
Materials Required:	*Citizen Harold*, available from Learning Corporation of America, 1350 Avenue of the Americas, New York, NY 10019.
Rationale:	This activity serves to introduce students to the frustrations of dealing with a governmental bureaucracy, to the potential power of organized groups of citizens, and to the difficulties of overcoming citizen apathy. The film *Citizen Harold* is especially useful for these purposes.
Concepts:	Authority, power, public policy, institutions, participation, third-party costs.
Instructional Objectives:	Given the film *Citizen Harold*, and a series of short discussions during the viewing of the film, students will write accurate descriptions of the problem faced by Harold and suggest one or more alternative solutions.

Teaching Strategy	**Pupil Activity**
1. Show the film *Citizen Harold* using the following viewing/discussion sequence:	
a. Show first part of film. Stop film after Harold's first visit to City Hall and pose the following questions for discussion: (1) Is Harold's ineffectiveness his own fault? The fault of City Hall? Nobody's fault? (2) What should Harold do now? NOTE: Avoid accepting *one right answer.* Elicit as many "should" alternatives as possible.	View film and participate in class discussion.
b. Resume showing film. Stop film after the dream sequence. Ask students; "What should Harold do now?"	
c. Resume showing film. Stop film after Harold's failure to organize his friends. Ask students: "What do you think Harold should do now?"	
d. Show remainder of film. Ask: Did you identify with Harold? With his wife? With the man with the bomb? Did your feelings change as the story went along? If so, in what way?	

2. *Evaluation:*	
a. Individual written exercise: If you had Harold's problem, how would you go about solving it? Could you solve it?	Complete written exercise.
b. Suggested criteria for evaluating written assignment: (1) Correctly describes the nature of Harold's problem. (2) Advances a reasoned argument explaining how the problem might be solved or provides reasons why the problem can't be solved.	

Instructional Activity No. 5

Consumer Redress

Recommended Use:	Senior High School Economics or Problems of Democracy courses. Read game information prior to use. If your state has laws that conflict with answers given on sheets used by Coordinators of Channels of Appeal you may either make the necessary changes or point out the discrepancy between the game and state law in the debriefing session.
Time Required:	One class period (40-60 minutes) to complete simulation, plus one or more class periods for debriefing and evaluation session.
Materials Required:	Simulation *Consumer Redress*, Changing Times Education Services, 1729 H Street, N.W., Washington, DC 20006.
Rationale:	Students should have some familiarity with the channels of appeal for specific consumer complaints and with the process and difficulties involved in obtaining redress.
Concepts:	Authority, power, public policy, institutions, participation, third-party costs.
Instructional Objectives:	1. While playing the game, each student will pursue at least two grievances through to their final resolution. 2. Following the game and the debriefing session, each student will able to list at least 4 of the 6 channels of appeal and at least 5 of the special government agencies and provide an example of a grievance that would be handled by each agency listed. 3. Following the game and the debriefing session, each student will formulate at least two generalizations based on the game experiences and will recommend guidelines for trying to get a grievance redressed.

Teaching Strategy	**Pupil Activity**
1. Prior to actual play of *Consumer Redress:* a. explain the game's objectives to the students. b. explain the concepts "grievance," "redress" and "redress of grievance." c. assign or have students choose roles. d. establish stations and distribute materials. e. review playing procedures with students.	Listen to explanations and directions.
2. Give signal for game to begin.	Each student performs the activities assigned for his/her role. a. Coordinators of channels of appeal—inform consumers of the outcomes of their appeals.

b. Limbo keeper—informs consumers when the prescribed periods of time for their stays in Limbo have lapsed.

c. Clerk of redress—keeps account of grievances redressed by each of the teams.

d. Consumers—attempt to get grievances redressed. Complete entry on own consumer's grievance docket for each attempt made.

3. Debriefing and evaluation:

The debriefing session serves both to teach and to evaluate through analysis of the game experiences. Consumers should have available their grievance dockets and the cards describing each of the grievances that they pursued. Coordinators should have the channel cards listing the results of appeals. The clerk of redress records should have the record sheet of grievances redressed. The following questions should be discussed by the class:

a. How many grievances were redressed by each team? What individual had the most grievances redressed? Which grievances were redressed by all teams? Which grievances did all teams fail to redress?

b. Which grievances were easiest to redress? Which were most difficult? Which took the most time?

c. Which channels of appeal were most helpful? Which seemed to have the most power to act? Which appeared to have no power to act? Which limited its activity to giving advice?

d. How closely do you think *Consumer Redress* simulated reality? What did the Limbo assignment represent? What factors of real life were left out of the game?

Each student should then answer the following questions in writing:

e. List at least 4 of the 6 major channels of appeal and at least 5 of the special government agencies and provide an example of a grievance that might be handled by each agency that you have listed.

f. What generalizations can you make as a result of playing *Consumer Redress?* Can those generalizations be challenged? What guidelines would you recommend for trying to get a grievance redressed?

Participate in debriefing discussion and complete writing assignment.

Instructional Activity No. 6

Why Federal Regulation?

Recommended Use:	Senior High School Economics, Problems of Democracy or United States History courses. Because of the level of difficulty of the readings, the activity may not be appropriate for students having low reading ability.
Time Required:	One or two classroom periods.
Materials Required:	Multiple copies (one per student) of Student Readings Nos. 4 and 5.
Rationale:	This activity presents students with arguments in support of the use of public policy to control private economic power. Nearly 64 years of government regulatory activity separate the statements of Theodore Roosevelt and Ralph Nader, yet the latter insists that even more governmental action is needed.
Concepts:	Third-party costs, competition, cost-benefit analysis, authority, power, public policy, institutions, participation, capture.
Instructional Objectives:	Given statements concerning the need for federal regulation of economic activity, students will: 1. identify the reasons for government regulation discussed in the statements. 2. formulate generalizations about why government regulation has not been as effective as consumer advocates would like.

Teaching Strategy	**Pupil Activity**
1. Have students read the statements by Theodore Roosevelt and Ralph Nader and summarize the reasons that each gives for increased government regulation of economic activity.	Read the two statements and prepare summaries.
2. Ask students to formulate generalizations as to why government regulation which began during the early years of the century (the Progressive Era) has not proven as effective as consumer advocate Ralph Nader would like.	Formulate generalizations about the effectiveness of government regulation.
3. *Evaluation:* Students should include among reasons for increased regulatory activity some versions of the following criticisms of economic activity: a. Inflation of costs to consumers. b. Encouragement of inefficiency in critical sectors of the economy. c. The stifling of innovation.	

d. The corruption of the political and administrative processes by the regulated interests (capture of the regulators by the regulated).

e. The stimulation of competitive forces in the economy.

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Student Reading No. 4

Theodore Roosevelt's View

In my message to Congress on December 5, 1905, I said:

"In our industrial and social system the interests of all men are so closely intertwined that in the immense majority of cases a straight-dealing man, who by his efficiency, by his ingenuity and industry, benefits himself, must also benefit others. Normally, the man of great productive capacity who becomes rich by guiding the labor of many other men does so by enabling them to produce more than they could produce without his guidance; and both he and they share in the benefit, which comes also to the public at large. . . . Yet, while not merely admitting, but insisting upon this, it is also true that where there is not governmental restraint or supervision some of the exceptional men use their energies, not in ways that are for the common good, but in ways which tell against this common good. The fortunes amassed through corporate organization are now so large, and vest such power in those that wield them, as to make it a matter of necessity to give to the sovereign—that is, to the Government, which represents the people as a whole—some effective power of supervision over their corporate use. In order to insure a healthy social and industrial life, every big corporation should be held responsible by, and be accountable to, some sovereign strong enough to control its conduct. I am in no sense hostile to corporations. This is an age of combination, and any effort to prevent all combination will be not only useless, but in the end vicious, because of the contempt for law which the failure to enforce law inevitably produces. We should, moreover, recognize in cordial and ample fashion the immense good effected by corporate agencies in a country such as ours. . . . The corporation has come to stay, just as the trade union has come to stay. . . . Each should be favored so long as it does good. But each should be sharply checked where it acts against law and justice.

" . . . The makers of our National Constitution provided especially that the regulation of interstate commerce should come within the sphere of the General Government. The arguments in favor of their taking this stand were even then overwhelming. But they are far stronger to-day, in view of the enormous development of great business agencies, usually coporate in form. Experience has shown conclusively that it is useless to try to get any adequate regulation and supervision of these great corporations by State action. Such regulation and supervision can only be effectively exercised by a sovereign whose jurisdiction is coextensive with the field of work of the corporations—that is, by the National Government. I believe that this regulation and supervision can be obtained by the enactment of law by the Congress. . . . Our steady aim should be, by legislation, cautiously and carefully undertaken, but resolutely persevered in, to assert the sovereignty of the National Government by affirmative action.

"This is only in form an innovation. In substance it is merely a restoration; for from the earliest time such regulation of industrial activities has been recognized in the action of the lawmaking bodies; and all that I propose is to meet the changed conditions in such manner as will prevent the Commonwealth abdicating [*sic*] the power it has always possessed, not only in this country, but also in England before and since this country became a separate nation.

"It has been a misfortune that the National laws on this subject have hitherto been of a negative or prohibitive rather than an affirmative kind, and still more that they have in part sought to prohibit what could not be effectively prohibited, and have in part in their prohibitions confounded what should be allowed and what should not be allowed. It is generally useless to try to prohibit all restraint on competition, whether this restraint be reasonable or unreasonable; and where it is not useless it is generally hurtful. . . . What is needed is not sweeping prohibition of every arrangement, good or bad, which may tend to restrict competition, but such adequate supervision and regulation as will prevent any restriction of competition from being to the detriment of the public, as well as such supervision and regulation as will prevent other abuses in no way connected with restriction of competition."

I have called your attention in these quotations to what I have already said because I am satisfied that it is the duty of the National Government to embody in action the principles thus expressed.

No small part of the trouble that we have comes from carrying to an extreme the national virtue of self-reliance, of independence in initiative and action. It is wise to conserve this virtue and to provide for its fullest exercise, compatible with seeing that liberty does not become a liberty to wrong others. Unfortunately, this is the kind of liberty that the lack of all effective regulation inevitably breeds. . . . This does not mean that there should be any extension of Federal authority, for such authority already exists under the Constitution in amplest and most far-reaching form; but it does mean that there should be an extension of Federal activity. This is not advocating centralization. It is merely looking facts in the face, and realizing that centralization in business has already come and can not be avoided or undone, and that the public at large can only protect itself from certain evil effects of this business centralization by providing better methods for the exercise of control through the authority already centralized in the National Government by the Constitution itself. . . .

Source: Richard Abrams, ed., *The Issue of Federal Regulation in the Progressive Era,* The Berkeley Series in American History (Chicago: Rand McNally & Co., 1968). Reprinted with permission.

Student Reading No. 5

A Citizen's Guide to the American Economy
by Ralph Nader

This year [1971] the gross national product of the United States will exceed one trillion dollars, while the economy will fail to meet a great many urgent human needs. This contrast between the statistics of growth and the fact of economic deprivation in America has become more and more evident to the public during the past decade—especially in such dramatic cases as that of the medical care industry, which has received vastly higher payments from both the government and patients, while the quality of medical care itself remains unchanged or has become worse. . . .

Meanwhile, the impact on our lives of the largest economic force of all, the corporate economy, has been badly neglected. Most formal inquiries into a more just and efficient use of national wealth have failed to measure how the citizen's dollars are being wasted and depreciated in the market place and his taxes converted into corporate property and income. . . .

What are needed now are analyses of the corporate economy that will do what economists for the most part have failed to do: show how corporations, by their control of both the market and government, have been able to divert scarce resources to uses that have little human benefit or are positively harmful. Such studies . . . will show the folly of pouring more dollars into the sieve of an irresponsible corporate system.

. . . I would like to outline some of the major categories in which the abuses fall and to give a few of the many possible examples of how they work. I call these categories "sub-economies." . . .

1. *The involuntary sub-economy.* By this I mean the billions that consumers would not have paid if they knew or could control what they were getting or if corporations observed elementary standards of honesty, safety, and utility in producing and selling the things that are bought. Consumers are now spending billions of dollars for products sold under false pretenses: meat and poultry that are adulterated with fat and water; patent medicines, mouthwashes, and "aids" to beauty and diet that do far less than they are said to do or nothing at all. Both the Food and Drug Administration and the National Academy of Sciences have compiled lists of drugs, patent medicines, and mouthwashes that are valueless for the purposes they advertise and often harmful as well, as in the case of certain antibiotics. . . .

2. *It is in the transfer sub-economy* . . . that the prices for goods and services may rise unconscionably as they move from the supplier of raw materials to the manufacturer, and then to the wholesaler, the retailer, and the consumer. The announcement of a price increase by the steel, aluminum, and copper industries concerns the White House economists far more than would a sudden increase in retail prices. It is not simply that a rise in the price of steel will cause a rise in the prices of steel products. The economists know that such increases will escalate sharply as they pass from one shared monopoly or oligopoly of steel buyers and sellers to another, until they reach the consumer who may well have to buy his car or stove from an "exclusive dealer." . . .

3. Both sub-economies I have mentioned so far are facilitated by the *controlled market sub-economy.* By this I mean the thousands of arrangements that make it possible for corporations to avoid competition over the price, quantity, and quality of things made and sold, so that the value of what buyers receive is often outrageously distorted, by comparison with what the value would be if the market was not controlled.

Many of the practices in this sub-economy are violations of the anti-trust laws that have become both familiar and tolerated: price fixing, product fixing—for example, the auto industry's entrenchment of the internal combustion engine—shared monopolies, etc. They also include other barriers to entry into the market such as excessive restrictions on occupational licenses, oil import quotas, and the tying up of patents. . . .

. . . The Federal Trade Commission has estimated that if highly concentrated industries were broken up by the anti-trust laws into more competitive companies so that the four largest firms in an industry would not control more than 40 percent of that industry's sales, prices would *fall by 25 percent or more*. This estimate applies to such major industries as autos, steel, copper, aluminum, containers, chemicals, detergents, canned soups, cereals. . . .

Another example of the controlled economy that we all live with—and for the most part tolerate—is the manipulation of zoning by corporations so as to control the use of land. Zoning boards were originally supposed to bring the exploitation of land under democratic control. In most cases, in fact, large corporations and other powerful real estate interests are able to pressure zoning authorities into granting land restrictions, or obtaining "variances" from existing regulations, that are profitable to them. . . .

4. Such an example brings us to the *corporate socialism sub-economy* which includes both a) corporate pressure on government to unjustifiably transfer public funds and privileges to corporate control and b) withholding of proper payments and other obligations from the government by the corporations that owe them.

The tax system has become, to a disgraceful degree, an indirect subsidy to corporations and other privileged groups. Many of the glaring tax loopholes that slip through Congress each year are in effect huge payments by the government of money it would otherwise have received. . . . Thanks to the oil depletion allowance, among other loopholes, the Atlantic Richfield Oil Company, to take an extreme example, had a net income of $797 million, while paying no federal tax whatever, from 1962 until 1968, when it paid at the rate of 1.2 percent.

These "tax expenditures" by the federal government have their local counterparts in the gross underpayment of property taxes by mineral companies, real estate developers, and commercial and industrial property owners. A preliminary estimate shows that local taxpayers are paying a subsidy of at least $7 billion a year to such interests when they allow them to evade property taxes. . . .

The direct subsidies paid for agriculture, shipping, business promotion, and "research" are quite as important . . . as the indirect subsidies paid by the tax system. The Department of Agriculture, for example, is now spending over $4 billion each year for its subsidy programs. . . . Big corporate farms receive the lion's share and Congress does not question the inequities that result. . . . Thanks to Senator Proxmire and others, the public has at least begun to learn of the waste and mismanagement in defense contracting, and the consequent multibillion-dollar "cost-overruns" that have become commonplace—e.g., the $2 billion overrun paid Lockheed for the C5A. . . .

5. The *compulsory consumption sub-economy* is not part of any recognized system of economic exchange—but it has grave economic effects. I am referring to the compulsory consumption of environmental pollution and compulsory exposure to occupational health and safety hazards. These reduce the *quality* of the gross national product and thus diminish the value of the citizen's dollar, even when they do not directly compel people to pay for medical treatment, for example. . . . Air and water pollution are each costing at least $14 billion a year. (The yearly damage to California crops alone from air pollution runs to $45 million.) The costs to the unborn, or to the environment in the future, have not even been estimated.

Safety and health hazards on jobs in factories, foundries, mines, and other work places are also a form of compulsory consumption. They now cause three times as many injuries as street crime: 15,000 sudden deaths last year, uncounted thousands of deaths resulting from occupational disease, 2.5 million disabling injuries, several million cases of less serious injuries and illnesses. . . .

6. The *expendable sub-economy* is composed mostly of poor people who are being excluded from the services of the economy at large. It is not simply that the poor pay more: they are not being allowed to buy. In Washington, Baltimore, New York, in fact in every large city, insurance and banking firms commonly "red line"—or refuse to do business with—people in the poor districts. . . . But by cutting off the funds needed for housing, for financing small business, and for municipal bonds in the low income areas of the cities, the banks and other lenders

are causing the deterioration of the urban economy and injuring the well-being of millions of people.

The government, moreover, has become a willing partner in such discrimination. It provides fast tax write-offs for airplanes, computers, bulldozers, and trucks, causing loan money to flow in these directions and not toward loans to the poor and those who have more urgent needs. It provides tax inducements for slum landlords who are allowed to depreciate slum property at an accelerated rate and to pay capital gains taxes on profits from sales—a process which is quickly repeated by the next slum landlord.

The federal government artificially restricts the money supply in order to control inflation. It should insure that all segments of the borrowing public be given equitable treatment so far as restrictions on borrowing are concerned. . . .

Apologists for the present corporate system will argue that the sub-economies I have described so generally here are justified because they support industries, create jobs, generate income. But it should be clear that their operations and the kinds of needs they satisfy are, to a great extent, neither desirable nor socially responsible; in many cases they are not legal. A safer traffic system would no doubt weaken the accident-injury industry, and that is as it should be. For most of this century there has been declared a national consensus in favor of competition, as well as numerous laws designed to encourage it, but both have been for the most part betrayed. When they have not, the benefits for the citizen have been dramatic. (Last year a new supermarket chain broke into the complacent food market of Washington, D.C., long dominated by three major chains. This episode and a detailed FTC report on monopolization of food prices in the Washington, D.C., area, according to an FTC report, saved Washington consumers $40 million in reduced prices in one year.) Indeed, each of the sub-economies I have described subverts values that are deeply rooted in American life.

What has been tragic is the general failure to understand how this occurred. Fundamentally new ways must be found to make both government and corporations accountable. We should pursue the suggestion already made by some social critics for a "social accounts system" which would enable government and citizens to evaluate whether programs of education, medicine, and transportation, for example, were improving or deteriorating in quality. . . .

Similarly, computers should be made directly available to the citizen, and should be accessible both at shopping centers and by telephone. Such a cheap and simple source of information, which would give advice on the quality of products and of government and private services, could do much to squeeze the waste and deception out of the economy and give value to the dollar. . . .

. . . The task of the consumer movement now is to gather and analyze and disseminate . . . information by demanding it from the three branches of government and by mounting private actions by consumer groups to publicize it. Such information is the currency of economic democracy, the first tool for changing the perception of citizens and society itself.

"A Citizen's Guide to the American Economy," by Ralph Nader from *The New York Review*, © September 2, 1971, The New York Review, New York, pp. 14-18. Reprinted by permission.

Instructional Activity No. 7

Why Regulation Fails

Recommended Use:	Senior High School Economics or Problems of Democracy courses.
Time Required:	One class period.
Materials Required:	Multiple copies (one for each student) of Student Reading No. 6.
Rationale:	A major purpose of the activity is to acquaint students with some of the major criticisms of regulatory agencies.
Concepts:	Third-party costs, competition, inefficiency, authority, power, public policy, institutions.
Instructional Objectives:	Given several excerpts critical of the activities of regulatory agencies, students will: 1. identify the problems discussed in the excerpts, the remedies proposed, and classify these remedies as procedural, structural or antiregulation. 2. formulate generalizations about why government regulation fails.

Teaching Strategy	**Pupil Activity**
1. Distribute the reading "Why Regulation Fails" and have students complete the exercise as an assignment or as class work.	Read and analyze the excerpts contained in "Why Regulation Fails."
Note: Students might have difficulty in distinguishing between procedural, structural and antiregulation remedies. You may wish to give them the following explanations: A *procedural remedy* would be a change in the way the regulatory agencies operate. A *structural remedy* might be the combining of agencies or agency functions, the creation of new agencies, the provision of more citizen control, etc. An *antiregulation remedy* might be a proposal to abolish regulations rather than change procedures or structure.	Identify the problems discussed, the remedies proposed, and classify the remedies as procedural, structural or antiregulation in nature. Formulate a generalization about why regulation fails.
2. Discuss student responses in class.	Participate in class discussion.
3. *Evaluation:* Students should include among the criticisms of regulatory activity identified some versions of the following: a. Inflation of costs to consumers.	

b. Encouragement of inefficiency in critical sectors of the economy.

c. The stifling of innovation.

d. The corruption of the political and administrative processes by the regulated interests (capture of the regulators by the regulated).

e. The stimulation of competitive forces in the economy.

Student Reading No. 6

Why Regulation Fails

Although only about 10 percent of the gross national product is subject to federal regulation, the regulated sectors include many essential economic activities. Transportation, communications, energy, banking, utilities and health care are industries subject to extensive regulation. Critics of government regulation of business differ in their political and economic philosophies and consequently view problems differently and suggest widely divergent reforms.

Read each of the following excerpts carefully. Decide in each case what problems the author feels need to be solved and what remedies are proposed. Which selections emphasize procedural or structural reforms (better regulation)? Which selections argue for less regulation? Based on these selections make a general statement about why government regulation fails.

1. "Let me give you some examples of current regulatory policies which are costing the consumer millions—even billions—of extra dollars annually.

   For instance, in the trucking industry, certain Interstate Commerce Commission regulations force many trucks to return empty, after making delivery. The National Commission on Productivity has estimated that this regulation costs $250 million a year. Eliminating it could also save a quarter of a billion gallons of gasoline a year."

   Source: Z. D. Bonner, "The Abuse of Power by Regulatory Agencies: The Cost to the Consumer," *Vital Speeches of the Day* (January 15, 1975), p. 195.

2. "The agencies often defend such practices on the grounds that it serves the national interest to protect key industries—for example, faltering flag carriers like Pan American World Airways. Even so, such protective policies can backfire. They can encourage inefficiency; they can block badly needed new technologies. Communications satellites were long needed to relieve the overloaded U.S. long-distance telephone network, but largely because of FCC dawdling, the first domestic communications satellite was not launched until this year [1974]. By keeping natural-gas prices unreasonably low during the 1960's, the FPC discouraged exploration for new supplies and thereby helped create today's severe natural gas shortage. . . . Finally, some agencies may simply be redundant. An independent arm of the treasury, the Comptroller of the Currency performs some of the same bank supervisory functions as the Federal Reserve and the Federal Deposit Insurance Corporation, and sometimes not as well: in a recent audit of New York's Franklin National Bank, it failed completely to spot any signs of the institution's impending collapse."

   Source: "How to Regulate the Regulators," *Time* (October 21, 1974), p. 58.

3. "Regulatory agencies have delayed or prevented a number of technological changes that threatened either to shift substantial business from one regulated firm to another or to result in substantially less profit for regulated firms generally. The agencies most often guilty of such choices are the ICC and the FCC—for example, in impeding use of the Big John hopper railroad car, prohibiting foreign attachments on the switched communications network, and restricting the development of pay TV. All of these are examples of a long regulatory delay, for eventually the regulatory agencies did permit the new technological development."

   Source: *Reforming Regulation*. Washington: The Brookings Institution, 1972, p. 24.

   "Professor Sam Peltzman found that the FDA's requirement that drugs be proven effective has effectively eliminated the big drug companies' smaller

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rivals, increased drug prices by at least $200 million a year, and, by delaying the introduction of life-saving new drugs by two to four years, cost more lives than were saved."

Source: "Nader v. Consumers," *National Review* (July 18, 1975).

4. ". . . the one group which does oversee agency activities with a keen critical eye is the regulated industry. It expends considerable effort in lobbying agencies and Congress to make its position known and to see that it is accepted. Industries have the resources to assign someone to cover agency rule-making on a full-time basis. Over time, they develop channels for obtaining preferential access to the early stages of decision-making, when it is usually easier to affect outcomes. Their pressure tactics are refined, focused, and effective. The long-term personal relationships they nurture with key regulatory personnel are likewise aids to successful lobbying.

   Given the context in which most regulatory agencies operate, industry has other built-in advantages. On questions of rate regulation, for example, regulatory decisions frequently are made on the basis of industry figures and forecasts."

   Source: Richard C. Leone, "Public Interest Advocacy and the Regulatory Process," *Annals of the American Academy* (March 1972), p. 49.

5. ". . . by attempting to repeal the law of supply and demand and replace it with artificial controls, orders, special privileges and compulsory arrangements, the federal government has disrupted normal, efficient market relationships and trade patterns. Thus, production has become more costly and these costs have been passed along to the consumer in the form of higher prices. Had competition been allowed to flourish, the high-cost, inefficient producer would have succumbed to the challenge of the lower-cost more efficient producers. Thus, competition was forbidden and even high prices were the result."

   "Airline passengers are . . . very much affected by anti-competitive regulatory policies. The Civil Aeronautics Board several weeks ago [1974] rejected an application by a privately-owned British airline to fly scheduled New York to London flights for $125 each way, a price which is a little more than one-third the current economy fare."*

   Source: Z. D. Bonner, "The Abuse of Power by Regulatory Agencies: The Cost to the Consumer," *Vital Speeches of the Day* (January 15, 1975), pp. 195-196.

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*Early in 1977 Laker finally did get permission to charge these low rates on flights between New York and London v.v.

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Instructional Activity No. 8

Regulation or Deregulation—What Policy Ought We to Pursue?

Recommended Use:	Senior High School Economics or Problems of Democracy courses. (Prior to this activity, students must have completed activities Nos. 6 and 7, pages 42 to 52.)
Time Required:	One or two 45-minute class periods.
Materials Required:	Answers from activities 6 and 7. Multiple copies (one per student) of Student Readings Nos. 7 and 8.
Rationale:	This activity asks students to examine the value dimensions of the regulation-deregulation controversy. The complexity of the regulatory process is a central thread of the activity.
Concepts:	Third-party costs, competition, cost-benefit analysis, authority, power, public policy, institutions, participation, capture.
Instructional Objectives:	Having completed activities 6 and 7 and having read "Deregulation Scares an Industry" and "Can You Find the Truck in This Picture?" students will: 1. identify common concerns of proponents and critics of government regulation. 2. establish criteria for increased government regulation and/or deregulation. 3. make personal value decisions about appropriate policy in the transportation industry.

Teaching Strategy	**Pupil Activity**
1. Ask students to compare the lists of reasons for regulation from activity 6 with the list of problems from activity 7 on why regulation fails.	Compare the answers from activities 6 and 7.
2. Have students read "Deregulation Scares an Industry" and "Can You Find the Truck in This Picture?" (Readings Nos. 7 and 8)	Read the two articles.
3. Have students discuss the following in small groups: a. Why are the airlines, their unions, the Association of American Railroads, the truckers, and the Teamsters' union opposed to deregulation? b. What would you use for criteria to decide when increased regulation is appropriate and when deregulation ought to be pursued? c. Which policy would you pursue in the transportation industry?	Participate in small group discussions.

4. Have groups share answers in a class discussion.	Present and discuss responses resulting from group discussions.
5. *Evaluation:* a. Students should recognize that those who advocate increased regulation and those who criticize regulation base their opposite positions on some of the same economic problems. b. Students should indicate that personal value judgments are involved in decisions about what types of regulation are desirable and whether or not the benefits of regulation outweigh the costs.	

Student Reading No. 7

Commentary/Transportation

Deregulation scares an industry

Are theorists in the Transportation Dept. meddling with the U. S. transportation industry and threatening to wreck it? Virtually every transportation executive is convinced that they are—and that the system cannot be put back together again if the tinkering proves destructive. No one can know whether the theorists or the working transportation executives will be proven right, but more and more it seems that the country is going to find out.

Broadly, the thinking at Transportation is that the system no longer works. Much of the industry does not get a large enough rate of return to replace its equipment, particularly at tomorrow's prices. So carriers seek more and more boosts in rates and fares, adding to inflation and, in some cases, reducing their own volume. Meanwhile, there are too many underused railroad tracks, too many trucks with empty "backhauls," too many unfilled airplane seats.

Freed from regulatory overprotection, department theorists reason, carriers would compete more aggressively. The old and inefficient would disappear, and new ones would be created. Fares and rates would go down, utilization would soar, and everyone would benefit except people and factories in small, out-of-the-way places—and even they would be served, at a price. A transportation industry would emerge with a rate of return sufficient to attract capital for plant and equipment replacement.

A scary prospect. Transportation executives find this all very frightening. As they see it, transportation is best organized around having a certificate of public convenience and necessity. In theory, a certificate ensures that markets are not oversaturated with entrants. The certificate is the main asset of airlines and trucking companies. Its chief disadvantage is that it also requires carriers to serve some markets, in the public interest, at a loss.

The Transportation Dept. thinks that new managements with fresh ideas should be allowed in. Even the threat of their entering a lucrative market should force prices down and service up. But transportation executives maintain that freedom of entry must have a companion feature: freedom of exit. If new entrants are to be allowed to skim the cream, the existing carriers know that as a practical, political truth they are going to be left with the skimmed milk.

The depth of their feeling showed up at two recent meetings held simultaneously. One was a convention of the Airport Operators Council in San Francisco, the other a "Town Meeting on Transportation" in Boston. Both meetings featured John W. Barnum, Deputy Secretary of Transportation and chief spokesman for the new ideas.

The airport issue. In San Francisco, many airport operators expressed concern that even partial airline deregulation would put small community airports out of business. "It looks to me as though the small operators are the ones who will have to pay," one operator told Barnum. Barnum replied: "If the airlines insist on the status quo, their debt ratios will continue to grow, and they will slide into bankruptcy. If that happens, you won't get service anyway."

In toying with ideas of freedom of entry and exit, the operators charged, no one has given enough thought to what this will do to the airports' ability to raise money from revenue bonds. "Under deregulation," said Ernest E. Dean, executive director of the huge Dallas/Fort Worth Airport, "the legal obligations of the eight air carriers at our airport, who have assumed financial responsibility for $422 million in revenue bonds, would become clouded." And Clifton A. Moore, general manager of Los Angeles International Airport, added: "It seems to me that Wall Street bond houses are going to take an awfully close look at this."

Barnum listened to those fears, promised to consider them, showed no sign of changing his mind—and flew off to Boston for more abuse. The Boston audience included railroad, waterway, trucking, and shipper spokesmen who always squabble. The unifying force, though, was a distrust of Barnum and Transportation Secretary William T. Coleman Jr.

In line with the department's thinking that there are too many miles of underutilized main-line tracks, Barnum suggested that he looks for an interstate rail network of very busy main lines, with the rest of the trackage downgraded or abandoned. The department appears ready to insist that $1.6 billion authorized by Congress in the Railroad Revitalization & Regulatory Reform Act will be forthcoming only for a streamlined railroad plant. "We do not need the main-line structure as it presently exists," Barnum said. To this, Stephen Ailes, president of the Association of American Railroads, countered with accusations of "bureaucratic frustration of congressional intent."

Attack on all sides. The truckers were no happier. Under deregulation, said Lee R. Sollenberger, chairman of the powerful American Trucking Assns., for-hire truckers and so-called pick-and-choose operators would take profitable business away from the common carrier truckers. "The whole philosophy . . . seems to be to create more carriers and more competition," he said, "but it won't work."

The angriest sniping came from C. J. Chamberlain, president of the Brotherhood of Railroad Signalmen and chairman of the Railway Labor Executives' Assn. He accused the department of trying to reshape the railroad industry by forcing mergers and starving some roads into failure. The only way out, he told the meeting, was to elect Jimmy Carter and get rid of Coleman.

But there is no evidence that this is the way to get rid of theorists in the Transportation Dept. In fact, Sollenberger reported to the conference, "I told Jimmy Carter, 'Let's have a little evolution but no revolution,'" and Carter responded with no promises and a one-page, vaguely worded statement. So, in spite of the terrible risks that transportation executives see, it seems that the theorists will get a chance to put their ideas into practice no matter who wins the Presidency.

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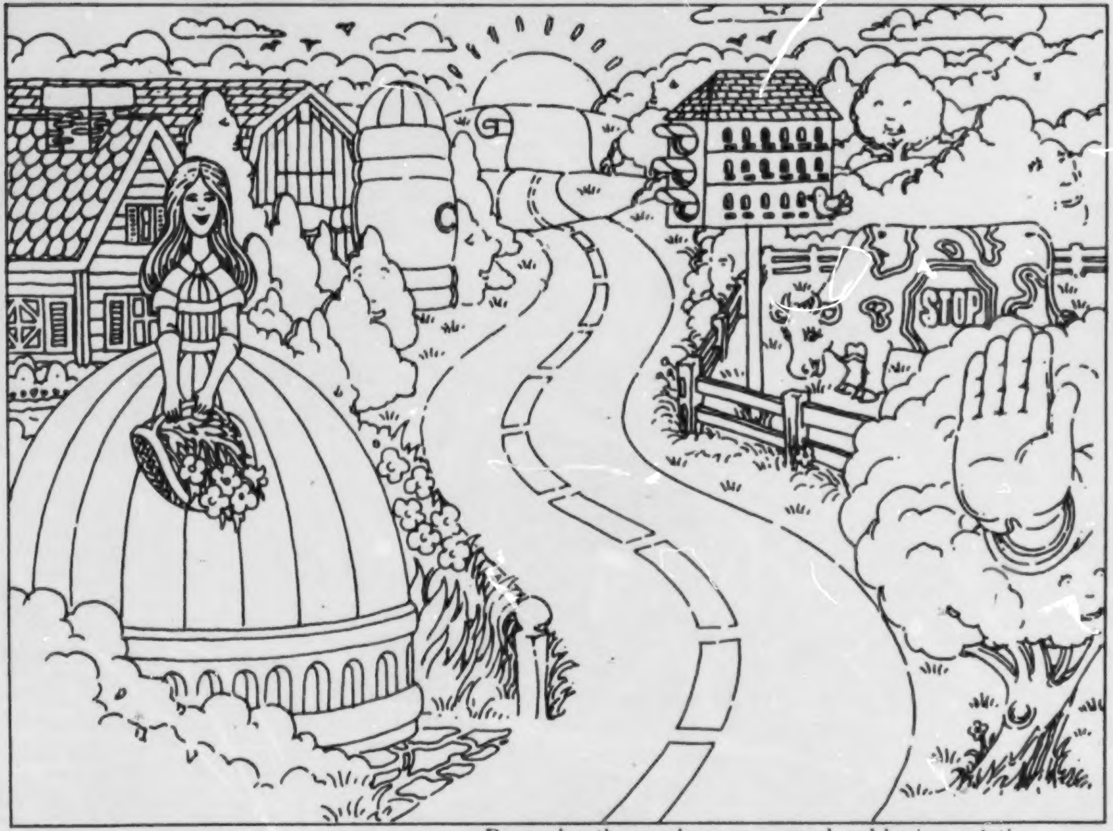
Student Reading No. 8

Can you find the truck in this picture?



Remember the puzzle game you played as a kid?

Well, government regulators have been playing games with the trucking industry. And it hasn't been fun.

Now they want to play the biggest fun game of all—*de*regulation.

And while it may look good on the surface, it may not be the panacea it seems.

Because while deregulation would allow free entry into any market, it would also allow free *exit* from any market.

Which could deprive every small town and city of the benefits of truck transportation. And wreak havoc with an industry that—thanks to some good and basic regulations—now provides every point in the country with an efficient method of shipping goods.

We urge you to look very, very closely at deregulation.

Because isn't it frightening to look at our country and not see trucks and truck-trailers in the picture?

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Instructional Activity No. 9

"A Freezer Free of Charge . . . Almost"

Recommended Use: Senior High School Economics or Problems of Democracy courses. Prior to conducting the activity you may wish to write to the Federal Trade Commission for more recent publications. Inquiries should be addressed to The Federal Trade Commission, Pennsylvania Avenue at Sixth Street, Washington, DC 20580.

Time Required: Three-four 45-minute class periods.

Materials Required: Multiple copies of Student Reading No. 9.

Rationale: The major purpose of the activity is to acquaint students with the specific functions of the Federal Trade Commission as an example of a regulatory agency.

Concepts: Opportunity cost, cost-benefit analysis, authority, power, public policy, institutions.

Instructional Objectives: Given the case study, "A freezer free of charge . . . almost," and a series of exercises, students will:

1. identify the ways in which the couple in the case was deceived or misled.
2. list those items the couple was entitled to know under existing law.
3. identify the mistakes made by the couple.
4. describe the responsibilities of the Federal Trade Commission and give examples of specific problems that can be appealed to the FTC.

Teaching Strategy	**Pupil Activity**
1. Distribute Reading No. 9, "A freezer free of charge . . . almost," and ask students to read it and prepare themselves to discuss the questions included with the case.	Read the case and prepare answers to study questions.
2. Conduct a class discussion based on the case, encouraging students to volunteer additional examples from personal or family experiences.	Participate in class discussion.
3. Assign individual research projects on legislation relating to the FTC (1906 Food, Drug, and Cosmetic Act with 1938 amendment; 1914 Federal Trade Commission Act with 1938 amendment; 1939 Wool Products Labeling Act; 1951 Fur Products Labeling Act; 1953 Flammable Fabrics Act with 1967 amendments; 1958 Textile Fiber Products Identification Act; 1966 Fair Packaging and Labeling Act; 1966 Cigarette Labeling Act; 1970 Fair	Complete research assignment and share results with the class.

Credit Reporting Act; Legislation involving the FTC proposed and/or passed after 1970.)	
4. Discuss current responsibilities of the FTC and the process by which its jurisdiction has been extended.	Participate in class discussion.
5. Assign students to use the *Readers Guide* and other indices to find current examples of FTC cases.	Pursue the assignment.
6. *Evaluation:* The teacher can evaluate progress toward the instructional objectives during the class discussion. Of particular value in assessing student understanding of the FTC's role will be the applicability of the current cases collected in the final research assignment.	

Student Reading No. 9

A freezer free of charge . . . almost

Dorothy and Bob Miles* have two children and another on the way. Bob works for a shipping company and makes good money. But living costs are high and inflation seems to eat up Bob's periodic pay increases. Food is one of the Miles' major expenses.

One day, after spending $35 at the supermarket for the week's groceries, Dorothy returned to the apartment and found a particularly interesting advertising circular in her mailbox. It read:

> "FREEZEKING PUTS A STOP TO RISING FOOD COSTS—GIVES YOU A WRITTEN GUARANTEE THAT THEY WILL MAINTAIN TODAY'S FOOD PRICES FOR THE NEXT THREE YEARS . . . WITHOUT A PENNY'S INCREASE."

The circular, advertising a food freezer plan, also promised a freezer *"free of charge"* to participants in the food plan. Dorothy had always wanted a freezer . . . and here was a chance to get one "free." As she read, Dorothy became more interested.

> "Customers will realize substantial savings over the cost of similar food in retail stores. All meat in the plan will be USDA Prime (which the Miles could never afford at the supermarket) or USDA Choice.
> A home economist will be available to demonstrate food preparation and help with selections."

Dorothy was not the best cook. She thought how great it would be to get advice from a professional home economist.

She read on.

> "Food provided in the plan will be adequate for the time period specified. The price of food will not increase for three years after the date of the contract.
> Food will be delivered regularly."

Too good to be true.

Dorothy thought about the plan as she put away her groceries. It was too good to be true. That evening Dorothy and Bob talked about the food plan. Bob was not too enthused at first but did agree to talk to a salesman. Dorothy called the number listed on the circular and arranged for a company representative to stop at their home the next evening.

Just sign right here.

The salesman arrived promptly at seven o'clock to explain the food plan and answer questions. Here's how the conversation went.

Salesman: Good evening, I'm from the Freezeking Company. We understand you are interested in saving on your food bills.

Bob: My wife read your folder, and we would like to know more.

Salesman: Yes, Sir. Our plan works this way: You sign up for the three-year plan and for only $20 per week you will receive all the food you and your children need—with no price increases for three whole years. Now, here's a list of the food we supply. Look it over, Mrs. Miles, and check the foods you usually buy.

Dorothy: You do have a wide selection. Lets see . . . I think this about covers everything we buy.

Salesman: Fine. We have a real opportunity to pass along savings to you because we buy in bulk, which cuts prices. This plan will be much less expensive than buying in the stores. And our food is all top quality—grade A, Mrs. Miles. You will get a delivery every month, and we provide you with a freezer to store it in for less than $8 weekly.

Dorothy: But your circular said the freezer was free.

Salesman: Well, practically speaking, it is, because with the savings on food, the freezer will pay for itself. It won't cost you at all. In fact, you'll come out ahead in the long run. Your food bills will be less, and you'll have a freezer too.

Bob: I don't know, Dorothy. Somehow this doesn't sound right.

Salesman: Why don't you just give it a try, Mr. Miles. If you aren't satisfied at the end of four months, you can cancel the food plan.

Dorothy: Let's try it, Bob. It would be such a help to have food delivered. The baby is due soon, and it's getting so hard for me to get to the store every week. And winter is coming, which means getting everybody bundled up when we go to the market. This would not only save us money, it would make life so much easier.

Bob: Oh all right. If you really want it that much, we'll give it a try for four months, but if it doesn't work we'll cancel.

Dorothy: Agreed.

Salesman: You've made a wise decision, folks. You won't be sorry. Just sign right here and you can expect your freezer and first delivery next week.

Plan is a disappointment.

The freezer arrived the following week as promised, and the first food order came the following day. Though she had requested a visit, Dorothy heard nothing from the company's home economist.

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*Bob and Dorothy Miles are fictitious people, but their case is based on an actual complaint and subsequent FTC cease and desist order, File No. 6423145 and on testimony from the "Hearings Before the House Subcommittee on Commerce and Finance—91st Congress, Feb./Mar. 1970, Serial No. 91-43—Class Action and Other Consumer Protection Procedures."

That evening Dorothy and Bob had their first meal from the food plan delivery. The meat seemed tough but wasn't too bad. It certainly was *not* prime although they couldn't tell because there was no government grade stamp on any of the meat they received. Neither of them wanted to admit it, but they both knew that the food was not top quality.

Later in the month the food supply was very short and obviously would not last until the next delivery.

About the same time, Bob received two coupon books from a finance company—one for the food plan requiring a payment of $80 for the food received that month and another for $32 for the monthly freezer payment. Somehow Bob didn't feel like they were saving very much, but he decided to stick it out and make the payments for the four months and then cancel the whole deal.

When Bob called the salesman at the end of four months, he was told that he could cancel the food plan but that he had signed a contract to buy the freezer and pay $32 a month for three years.

For the first time Bob studied the contract carefully. He had, in fact, signed up to buy the freezer. Maybe he should have read the small print more carefully, but he had believed what the ad and salesman said. Bob figured he had some rights, but he wasn't sure what they were. He decided to fight back.

Help from storefront lawyers.

Bob gathered up all the information he had—the contract, receipts, bills, guarantees and the circular—and took it to a storefront law office where he understood young lawyers and law students worked on "test cases" for a very small fee.

The office accepted Bob's case for review and determined that the company had violated the law on several counts—deceptive practices, false guarantee claims and failure to comply with the federal Truth-in-Lending Law. The lawyer studying Bob's contract discovered that the company failed to state several facts required by law, including, among other items, a separate itemization of monthly payments and total amount financed; the total finance charges in dollar-and-cents amount and annual percentage rate; the total amount to be paid, including all charges.

The storefront lawyers accepted Bob's case and filed a complaint against Freezeking with the Federal Trade Commission for violations of the Federal Trade Commission Act and the Truth-in-Lending Law. They then brought a private suit against the company to void the contract and obtain a refund of money paid.

The FTC investigated the complaint and other similar complaints on Freezeking and 13 other firms selling freezers, food and freezer-food plans. On the strength of their investigation and hearing, the commissioners at the FTC issued a cease and desist order forbidding all of these companies to make false claims about savings, product quality and guarantees; to engage in other deceptive practices; and to violate the Truth-in-Lending Law.

Bob's freezer contract was cancelled. He collected punitive damages of $500 and court costs.

Focus for discussion.

In what ways were Bob and Dorothy deceived or misled 1) by specific statements and claims and 2) by mere lack of information?

What did the Mileses have a right to know about the freezer, the food plan and the terms of the sale?

What statements and claims should have warned the Mileses that the freezer deal was not on the level?

What mistakes did Bob and Dorothy make?

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Instructional Activity No. 10

The Bottle Bill

Recommended Use:	Senior High School Economics or Problems of Democracy courses.
Time Required:	Two or three 45-minute class periods.
Materials Required:	Visual A and multiple copies (one per student or one per group) of Student Readings Nos. 10-16.
Rationale:	This activity requires students to confront an ongoing Government Regulation issue, to evaluate arguments pro and con, to identify the value components of the issue and make decisions compatible with their own values, and to suggest actions necessary to implement their decisions.
Concepts:	Opportunity cost, cost-benefit, third-party costs and benefits, authority, power, public policy, institutions, participation, lobbying.
Instructional Objectives:	Given the accompanying readings and a series of questions and assignments, students will: 1. identify the problem as perceived by the various groups affected by it. 2. describe the costs and benefits of alternative courses of action for dealing with the problem as seen by each of the groups. 3. formulate their own positions on the issues involved.

Notes to the Teacher

For useful background information see "The Economic Effects of Requiring Deposits on Beverage Containers," beginning on page 63.

When this guide went to press (Spring 1978) the Massachusetts Bottle Bill had not passed, and was still a topic of debate in the state.

Teaching Strategy	**Pupil Activity**
1. Introduce the activity with a discussion of the position taken in Visual A (This was a gummed label that was affixed to soft-drink cans by the manufacturer.) *Note:* If it is not possible to reproduce Visual A on a transparency, for purposes of initiating discussion, the statement may be written on the board.	Discuss the document.
2. Distribute readings Nos. 10-16. Ask students either individually or in small groups to read these and to sort them into three piles—"pro," "con," and "uncommitted" on the bottle bill.	Read articles provided and sort these as suggested.

3. After sorting has been completed, ask students to list the different Government Regulation problems identified in the "pro" documents and those identified in the "con" documents.	List the Government Regulation problems identified in the "pro" and "con" articles.
4. Have the students answer the following questions: a. What are the costs and benefits of the Bottle Bill according to its proponents? b. What are the costs and benefits of the Bottle Bill Bill according to its opponents? c. Do you have any evidence with which to evaluate the arguments? d. What values do the proponents of the Bottle Bill emphasize? e. What values to the opponents of the Bottle Bill emphasize? f. How has each side sought to have its position adopted? What has been the nature of the appeals made? How do you react to those appeals? g. After carefully weighing all the arguments, are you for or against passage of the Bottle Bill? h. How might you get involved in supporting your position?	Prepare written answers to questions a-h.
5. Ask each student (either individually or in small groups) to prepare a position statement—"pro" or "con"—on a national Bottle Bill. This statement should include an assessment of need as well as the expected benefits and costs of the position advocated. Additions to or changes of the legislation described in Reading No. 10 should be carefully described. Such alterations should be designed to answer the criticisms of those with differing views and should reflect an understanding of the positions outlined in the Readings. Possible strategies for advancing one's position should be discussed in the statement. Direct references to the Readings should be included in support of the position taken.	Prepare a position statement either for or against a national Bottle Bill.
6. *Evaluation:* A student will have successfully completed this activity if the position statement contains the following: a. Major arguments in support of the position taken drawn from several of the Readings. b. Recognition of arguments supporting different decisions and answers to those arguments. c. Discussion of the costs and benefits of the position advocated.	

Teacher Background Information

The Economic Effects of Requiring Deposits on Beverage Containers

by RICHARD W. KOPCKE

Three New England states, Connecticut, Maine and Massachusetts, are now considering legislation to require minimum deposits on containers for soft drinks and beer. Although this type of legislation would clearly produce substantial energy and environmental benefits,[1] opponents claim that these proposals would lead to a loss of jobs and increases in beverage prices. They point out that these states have extremely high unemployment rates and can ill afford any overall loss of job opportunities. Before such legislation is considered, therefore, its potential advantages and disadvantages must be evaluated carefully.

Aside from the impact of beverage container legislation, it is important to note that this is a period of great turbulence in the brewing industry. Recently, for example, several breweries closed in Massachusetts and several moved out of New York City within a *seven*-month period. The causes may be in the recent recession or in the possibility of achieving savings by closing old plants. In any event, these factors have a much greater impact on employment than mandatory deposit legislation for containers.

Since economic analyses have been completed for Connecticut and Maine,[2] this article considers the effects of minimum deposit legislation on employment and retail beverage prices in Massachusetts. The two major conclusions are:

(1) the requirement of a minimum deposit on beverage containers would increase employment opportunities in Massachusetts, although payrolls would decline in certain industries; and
(2) there is very little likelihood that the proposal would produce a noticeable increase in retail beverage prices; in fact, some prices might fall.

The legislation would hurt bottle manufacturers in the state as well as individual bottlers, beer distributors, retailers and can manufacturers. However, the adverse effects of the legislation would be moderated by providing an adequate period of transition for the industries involved, and the benefits would be enhanced if all New England states passed similar legislation.

Employment Prospects Under the Massachusetts Bill

The proposed Massachusetts legislation (House Bill #4200 of 1975) would require all soft drink and beer containers to carry a minimum refundable deposit (5¢ on small containers and 10¢ on all containers holding more than 32 ounces) after February 1, 1977. A ban would be placed on the sale of cans with detachable metal parts. All stores would be required to accept containers and refund deposits on any brands sold in the store. In turn, distributors would have to accept and pay the refund on their bottles and cans on making delivery to the retail outlet.

A minimum deposit law in Massachusetts would shift beverage packaging heavily in favor of returnable-recyclable containers, since only through reuse of the containers could the costs of the return process be recovered. Employment in the manufacture of beverage containers would decline, since fewer new bottles would be required. Employment would, however, increase in the bottling and distributing sectors; and skilled workers would be needed to operate and maintain bottle cleaning machines, additional employees to collect and recycle cans, truck drivers to transport the returned containers, and personnel for the additional warehousing and handling requirements. Employment would also increase at retail stores handling the returns. Table I summarizes the range of possible employment effects of the proposed Massachusetts legislation. The following sections analyze the potential effects on each of these industries.

Metal Can Manufacturing. Mandatory deposit legislation in Oregon resulted in a significant shift to refillable bottles instead of cans. Three firms in Massachusetts

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[1] This article focuses only on the economic impact of mandatory deposit legislation. For a comprehensive analysis of the energy and environmental benefits possible from the reuse of beverage containers which will result from such legislation, see U.S. Environmental Protection Agency, *Resource and Environmental Profile Analysis of Nine Beverage Container Alternatives, 1974.*

[2] Carlos Stern *et al., Impacts of Beverage Container Legislation on Connecticut and a Review of the Experience in Oregon, Vermont and Washington State,* University of Connecticut, Dept. of Ag. Econ., March 20, 1975 and Murrough H. O'Brien, *Returnable Containers for Maine: An Environmental and Economic Assessment,* March 17, 1975.

TABLE I

Employment Effects in Massachusetts of the Proposed Legislation

Industry	*Range of Employment Changes (in terms of full-time positions)*			*Corresponding Payroll Changes (000)*		
Metal Can Manufacturing	(300)	—	0	$(2,533)	—	$ 0
Glass Bottle Manufacturing	(335)	—	(425)	(2,828)	—	(3,588)
Soft Drink Bottlers & Canners	240	—	400	2,372	—	4,064
Malt Liquor Production	2	—	5	23	—	58
Wholesale Beer Distribution	180	—	400	1,707	—	3,793
Retail Stores	400	—	1,000	2,207	—	5,517
Net Change	187	—	1,380	$ 948	—	$ 9,944

SOURCE: Data on current employment levels from Massachusetts Department of Commerce, *1974-5 Massachusetts Industrial Directory* and U.S. Bureau of the Census, *County Business Patterns, Massachusetts, 1973.*

The data were adjusted to reflect employment in each firm directly attributable to beverage-related production. In addition, the figures were amended to reflect the closing of the Needham branch of the American Can Company and the closing of the Piels and Carling Breweries. The Owens-Illinois Glass Manufacturing Company was also added.

The range of employment changes was calculated by extrapolating from the Oregon experience as reported in Applied Decision Systems, *Study of the Effectiveness and Impact of the Oregon Minimum Deposit Law*, State of Oregon, Department of Transportation, 1974, pp. II-43, 131-134; T. H. Bingham and P. F. Mulligan, *The Beverage Container Problem*, Research Triangle Institute, Government Printing Office, Washington, D.C., September, 1972, p. 173; C. M. Gudger and J. C. Bailes, *The Economic Impact of Oregon's Bottle Bill*, Oregon State University Press, March 1974, pp. 68-69 and *Statement to the Oregon Legislature Minimum Deposit Law Study Review Committee*, September 12, 1974, p. 16.

The figures do not include the positive secondary employment influences in the construction and machine tooling industries. Furthermore, possible employment increases resulting from the development of regional breweries and/or a recycling center have not been included.

Payroll changes were calculated by applying the relative ratio of wages in Massachusetts for a particular industry to that in Oregon (U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings: States and Areas 1939-1972*) to reported wage rates in the Oregon studies. These figures were calculated on a disaggregated basis, by individual job function for employees hired after the legislation was adopted. See Applied Decision Systems, p. iii and II-43.

manufacture metal cans for beverage use, employing 300 people, and if a similar shift in market share were to take place (which we do not anticipate) these jobs would be threatened. The Oregon experience with cans is, however, unlikely to be repeated in Massachusetts for two reasons. First, Oregon provided an incentive for the shift to bottles by allowing a lower deposit for certified, refillable, standardized bottles than for cans. The Massachusetts legislation does not include such an incentive. Second, the Oregon market was only a small segment of the West Coast regional market, and all but 2 of the 11 major brewers supplying the area were located outside the state. These brewers diverted bottles previously distributed to other states into the Oregon market, rather than converting to cans with no detachable parts. Massachusetts plays a far greater role in its regional market, and therefore the same results cannot be expected to occur.

Furthermore, the natural advantages associated with cans ensure them a future role in beverage packaging. They are less expensive to fill, handle, ship, and store. Also, recent technological advances have enabled manufacturers to produce both cans without detachable parts and compacting machines suitable for smaller retail outlets. Cans have particular advantages for the consumer since they are unbreakable, light, and crushable, and refrigerate more quickly. Finally, on the environmental side, although a refillable bottle is the most energy efficient of all container types, reusable aluminum cans nearly equal the energy efficiency of returnable bottles if recycling rates of about 90 percent are obtained. The energy and raw material savings possible from recycling of cans are substantial. In summary, while Massachusetts could lose as many as 300 jobs in the can manufacturing industry, it seems much more likely that cans would retain their market share resulting in no loss of employment in that industry.

Moreover, the return system might create a demand for a recycling plant, leading to new industry and increased employment in the state. While the Massachusetts retail beverage container market is not sufficiently large to justify a metal recycling industry, adoption of similar legislation by all the New England states could warrant such a development. In any event, additional employment will be required to shred cans for shipment to recycling centers. However, Table I does not include any estimates of additional employment resulting from either shredding or from a possible recycling plant.

Glass Bottle Manufacturing. Massachusetts has two major beverage glass bottle manufacturers, together employing an estimated 500 workers. The use of refillable bottles implies a decline in employment in bottle manufacturing, the extent depending upon both the return rates experienced and the market share of refillable bottles. Assuming an 85 percent return rate (approximately seven trips per bottle on the average) and no decline in the use of cans, then employment in the industry would be reduced about 85 percent, a loss of 425 jobs. However, should bottles replace cans as happened in Oregon then more refillable bottles would be required, although total employment in the industry would still decline. Even assuming a complete shift to bottles, a net loss of 335 jobs could still result.

These predicted declines in employment may be overstated. First, to the extent that bottles manufactured out-of-state are used in Massachusetts, the switch to refillables would result primarily in declines in bottle imports, implying smaller reductions in employment within the state. Furthermore, can and bottle manufacturers do not limit their production solely to beverage containers. By increasing their production of containers for other uses, they might be able to avoid some employment loss.

The first column of Table I shows the estimated change in employment under the most pessimistic of assumptions. In the can and bottle manufacturing industries, the employment loss would be greatest if bottles completely replaced cans as beverage containers. Under these unlikely conditions, the state would suffer losses of as many as 635 jobs. If cans retained their market share, about 425 jobs would be lost in glass bottle manufacturing.

Soft Drink Bottlers and Canners. The bottling and canning of soft drinks merely require adding carbonated water to extracts and syrups which can be shipped inexpensively. As a result, bottlers and canners are widely dispersed and service relatively small geographic areas, thus limiting the transportation costs associated with the shipping of the bottled and canned beverages. In Massachusetts alone about 65 soft drink bottlers and canners employ approximately 2,870 people. This figure includes production as well as distribution employment, since the latter is handled by truck driver/salesman representatives of the local bottlers.

Employment opportunities in the industry would increase after passage of returnable container legislation. More drivers would be needed to carry the returns; additional personnel would be required for handling, warehousing, and bottle cleaning. A study of the Oregon experience estimated that at least 82 jobs were added in this industry following adoption of its legislation. Since the Massachusetts market is more than three times that of Oregon, a minimum gain of 240 workers might be expected but, in fact, as many as 400 jobs might be created.[3]

Malt Liquor Production. Massachusetts has suffered a decline in employment in the brewing industry in recent years. In 1965 seven breweries operated in the state, but only one, employing 60 workers, will remain following the closing of the Carling Brewery in mid-1976. The legislation will have an insignificant effect on the existing brewer in terms of the additional staff required for handling returns and bottlewashing (see Table I). However, because the legislation will give a competitive advantage to brewers located close to the consumers, it may have a significant effect in reversing the trend away from local brewers and may therefore increase employment in Massachusetts by encouraging the development of both local breweries and regional plants of national breweries. Since this possibility is speculative no employment increases for new breweries are shown even for the most optimistic estimates of Table I.

Wholesale Distribution of Beer. Massachusetts has 103 beer distributors employing 3,382 individuals. Preliminary evidence from the Oregon experience showed that one additional employee was needed for each 4.5 million returnables handled.[4] Based on the estimated volume of beer consumption in Massachusetts, 180 new employees would be required. However, cost data from the Oregon experience including transportation costs for the return trip demonstrate that an estimate of 400 new jobs for Massachusetts is reasonable.

TABLE II

Cost Changes Due to Conversion to Refillable-Recyclable Containers

($ per case)

	Soft Drinks		*Beer*	
	Bottles	*Cans*	*Bottles*	*Cans*
Wholesale Prices	−$.20	−$.25	−$.39	−$.32
Distribution Costs	—	—	.10	.10
Retail Handling Costs	.30	.30	.30	.30
Net Change	$.10	$.05	$.01	$.08

SOURCE: Wholesale price changes are calculated in the technical appendix. Distribution and retail cost changes were estimated from data on the Oregon experience presented in Applied Decision Systems and Gudger and Bailes. (See notes to Table I).

Retail Stores. Grocery stores, supermarkets, and packaged liquor outlets would need to expand employment should a minimum deposit program be enacted, in order to handle customer returns. The Oregon data showed that approximately 3,000 hours of work are created for every million returnable containers handled. In Massachusetts this suggests that the equivalent of 2,000 employee years of work would be created at the retail level. Much of this work would be performed by part-time employees or by existing staff working overtime. With greater use of cans than occurred in Oregon and the installation of automated compactors, combined with utilization of overtime labor and part-time help, a range of 400 to 1,000 additional full-time workers seems probable.

Aggregate Employment Effect and Impact on Payrolls. Table I shows that in the aggregate the proposed Massachusetts legislation would create from 187 to 1,380 additional jobs. Similar employment increases have been predicted in analyses for other states. A U.S. Department of Commerce study of the impact of mandatory deposit legislation on the nation predicted as many as 33,000 additional jobs.[5]

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[3] The estimate of 400 jobs was obtained by applying a handling charge of $.17 per case, derived from Oregon studies, to a calculation of the number of cases sold in Massachusetts. The resulting labor bill divided by the average wage rate provides this estimate of the number of jobs.

[4] This estimate was derived by averaging the productivity figures presented in Gudger and Bailes, *The Economic Impact of Oregon's Bottle Bill*, March 1974, pp. 46-48; Gudger and Bailes, *Statement to the Oregon Legislature Minimum Deposit Law Study Review Committee*, September 12, 1974, p. 16; and Applied Decision Systems, *Study of the Effectiveness and Impact of The Oregon Minimum Deposit Law*, pp. II-131-134.

Despite these employment increases, there is concern that high-paying jobs would be lost while any new jobs would be predominantly unskilled and part-time positions. If this were the case, the legislation could still result in a decline in payrolls. However, job skills and pay scales in the soft drink bottling, brewing, beer distribution, and trucking industries are comparable to those in the glass container and can industries. Our analysis shows that employment changes for workers in these industries would offset each other, with net benefits from additional gains in the low-paying retail sector. Analysis of the changes in employment in terms of relative pay scales in Massachusetts, also presented in Table I, shows that the state's payrolls could increase from $1 to $10 million.

Estimated Retail Price Changes

To assess the influence of mandatory minimum deposit legislation on retail beverage prices, surveys have compared recent prices in the states of Washington, which has no such legislation, and Oregon, which does. Two years after the enactment of the legislation in Oregon, beer prices were 2 to 3 percent higher there for regional brands than in Washington.[6] However, soft drinks sold in reusable containers were comparably priced in both states. Moreover, beverages in these containers sold for 20 to 25 percent less than throw-aways in Washington.

In Vermont, bottlers and brewers were initially reluctant to introduce reusable containers when minimum deposits were required for all beer and soft drink packages. Therefore, the potential benefits of a recyclable packaging system were frustrated since used containers were discarded and retail beverage prices rose. Now, however, many Vermont beverage wholesalers are discovering that they can gain competitive advantages and reduce prices by switching to refillable containers. Bottlers who have converted report that recovery rates are comfortably above break-even points.[7]

Other studies have also predicted lower retail prices as a result of mandatory minimum deposit legislation. A recent study in New York State predicted a drop in retail prices saving the state's consumers $40 million. National survey evidence published by the U.S. Environmental Protection Agency shows that beer in refillable bottles sells for 5 percent less than beer in one-way bottles, while the use of refillable bottles reduces soft drink prices by 17 percent on average. Furthermore, in recent testimony before the Federal Trade Commission, soft drink bottlers reported that returnable containers with reasonable rates of reuse are the most economical package for the consumer.[8] In Boston, a popular soft drink in a 16-ounce returnable bottle sells for two-thirds of its price in a one-way bottle. Similarly, a popular beer sells for 10 percent less in returnable bottles.

Opponents of this legislation, however, suggest that the costs of switching completely to a reusable container system would be extremely high. They believe that the evidence of retail price surveys is misleading since reusable containers are a relatively minor form of beverage packaging today. A major shift to these containers would require substantial amounts of investment and would alter the cost structure of beverage firms significantly. These opponents have claimed that the added expense would drive up retail prices.

Table II summarizes our estimates of changes in the costs of soda and beer to retailers resulting from a conversion to refillable-recyclable containers. In spite of generous estimates of potential net cost increases, the table clearly shows that overall costs would rise insignificantly at most.

As explained in the technical appendix, wholesale prices of soft drinks would probably drop at least 20 cents per case for 7-12 ounce bottles and 25 cents per case for 12 ounce cans. Similar analysis indicates that the wholesale prices for beer would decrease at least 39 cents per case for bottles and 32 cents per case for cans. For bottlers and brewers the most important component of the beverage costs is the expenses of beverage containers which comprise almost half their cost, and consequently savings made possible by reusing containers overshadow increased expenses.

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[5] Gudger and Bailes, March 1974, pp. 68-69, provides data on the Oregon experience; Carlos Stern *et al.*, *Impacts of Beverage Container Legislation on Connecticut and a Review of the Experience in Oregon, Vermont, and Washington State;* Murrough H. O'Brien, Maine Citizens for Returnable Containers, *Returnable Containers for Maine: An Environmental and Economic Assessment;* New York Senate Task Force on Critical Problems, *No Deposit, No Return . . . A Report on Beverage Containers,* February, 1975; estimates showing employment increases for the U.S. as a whole have been made by the U.S. Department of Commerce, *The Impacts of National Beverage Container Legislation*, Bureau of Domestic Commerce Staff Study #A-01-75, October, 1975.

[6] However, about 60 percent of Oregon beers are brewed out of state which would naturally increase transportation costs. Another factor is that Washington has a 5 percent sales tax on beer while Oregon has none. See Don Waggoner, *Oregon's Bottle Bill—Two Years Later*, Columbia Group Press, May 1974, p. 30.

[7] The Vermont Governor's Highway Litter Evaluation Committee, "Report to the Governor," mimeo, December 1973, pp. 21 ff.

[8] United States of America before the Federal Trade Commission in the matter of the Coca-Cola Company, Docket Number 8855, October 3, 1975.

The predicted reduction in wholesale prices is substantiated by the experience of a western brewery which has converted its entire operation to refillable bottles and recycled aluminum cans. Paying a bounty for the return of its bottles and for aluminum cans, the brewery has experienced high return rates and has found the process to be economically advantageous.

Oregon data show that beer distribution handling costs and amortized investment expenses increase by 5-10 cents per case with the bulk of the charges due to labor costs. Although cans are less expensive to handle than bottles, a 10 cents per case increase is applied to both forms of packaging for beer distributors. No corresponding expenses are shown for soft drinks because distribution costs are included in the wholesale prices charged by bottling firms.

Retail expenses increase as a result of the added employment and capital investment required by recyclable-reusable packaging. Each 350 bottles returned requires approximately one manhour of labor to process the returns, handle the deposits, and undertake the necessary bookkeeping. Although cans are more easily processed than bottles, once again the same estimate of labor requirements has been applied. In addition to the employment expense, the retailers may require capital investment either to provide additional storage space or to buy compactors. In any event, a very generous estimate of the increased costs experienced by soft drink and malt beverage retailers is 30 cents per case. The net effect of these cost changes to retailers shows little likelihood that retail prices of beer or soda would rise by more than 2 percent as a result of the Massachusetts bill.

In summary, the available evidence supports the hypothesis that returnable-recyclable beverage containers will not require significantly higher retail prices. In fact, the net effect of cost changes could permit retail prices to fall.

Desirability of an Adequate Phase-in Period

To avoid some of the potential adverse economic effects, any mandatory deposit legislation should be enacted with an effective date one or two years after the legislation is passed to allow for adjustments in the affected industries. Bottle manufacturers then would be able to plan for the decline in the demand for beverage bottles and shift production to bottles suitable for other purposes, thus minimizing employment losses. Manufacturers could develop cans without detachable parts, thus avoiding the sharp decline in the market share of beverages sold in cans that was experienced in Oregon. Soft drink bottlers and brewers would have time to adjust their production systems to handle refillable bottles, and the necessary capital investment could be spread out over several years, preventing cash-flow crises. Finally, retail stores would have time to adjust to the new handling requirements and evaluate the need to invest in compacting machines.

The Benefits of Similar Legislation Throughout the Region

A mandatory deposit system could yield further gains if similar legislation were adopted throughout the region. This could allow for the development of new industry, since together the New England states could generate a sufficient volume of returned cans to permit efficient recycling and thus allow for a centrally located regional recycling center.

Furthermore, the small size of the New England states exacerbates border problems associated with differential legislation. Bottlers and brewers would find it difficult to comply with a variety of incompatible state laws in their sales areas. The possibilities for industry resistance would also be lessened if each state's law were compatible with that of the other states. The Vermont experience, where bottlers and brewers were reluctant to switch to reusable containers, would not be repeated if similar legislation were adopted throughout the region. The incentives for manufacturers to use standardized bottles, increasing the benefits of the legislation, would also be greater. Finally, uniform legislation for all New England states would make compliance by brewers, bottlers, and distributors that much easier, since many of them service customers in more than one state.

Alternative Solutions

While the environmental, employment, and price effects of the proposed mandatory deposit legislation are all expected to be positive in the aggregate in Massachusetts, the adverse impact of the legislation on certain industries highlights the need to examine alternative proposals.

One alternative proposal is an outright *ban* on the use of nonrefillable bottles and nonrecyclable cans, but nothing in such a ban would encourage the return of containers. In addition, unless provision were made for a gradual transition to reusable containers, such an action would probably have severe adverse economic effects, including immediate curtailment of employment in the glass and can manufacturing industries.

Another alternative is a program to tax cans and bottles as potential litter, combined with direct government sponsorship of recycling and resource recovery programs, public education and litter recovery. Vermont initially adopted a litter tax, and one is now levied in Washington state. However, energy savings from resource recovery and recycling are considerably less than those associated with direct reuse, and education and litter collection programs in the past have not been particularly successful.[9]

A review of the alternatives by a New York State Senate Task Force led them to conclude that only mandatory deposit legislation can provide substantial direct benefits:

> Requiring that a deposit be placed on all beer and soft drink containers (whether they be refillable bottles, nonrefillable bottles, or cans) without prescribing that specific types of container be used, provides a direct economic incentive to consumers to return bottles and cans to retailers. Such a mechanism forces beverage manufacturers to deal with emptied containers, thus encouraging the use of refillable or easily recyclable containers. The deposit approach takes advantage of an existing, proven mechanism; does not restrict consumers or producers from using the container they prefer so long as provision is made for its return; and does not restrict innovation while minimizing government intervention in the marketplace. Only those consumers who decide not to return containers are penalized (through forfeiture of deposit, a revenue to the beverage industries which would ultimately contribute to offsetting costs and possible price reductions).[10]

Conclusion

The mandatory deposit legislation currently proposed in Massachusetts provides for considerable environmental benefits. Fortunately, the foregoing analysis has demonstrated that the proposed law is not intrinsically detrimental to employment opportunity in the state. Moreover, retail price levels may actually decline. However, some employment loss may result in the glass and can manufacturing industries. Establishment of an adequate transition period to enable affected industries to adjust their technologies will help ensure a minimum of job losses. Acceptance of the legislation by both industry and consumers in the period immediately following its adoption is vitally important to its success.

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[9] New York Senate Task Force on Critical Problems, p. 34-48.

[10] *Ibid.*, p. 3.

TECHNICAL APPENDIX

COMPARATIVE COSTS OF BEVERAGE CONTAINERS

Mandatory bottle legislation will alter the cost structure of the bottling and brewing industries. By stimulating a switch to reusable containers, the legislation will result in increased costs to the bottlers due to each of the following:

- sorting and handling required to process the refillable and recyclable containers;
- the return trip transportation;
- required cleansing of refillable bottles;
- warehousing of refillables;
- investment for processing reusable containers;
- heavier cartons needed to carry returnables; and
- new and heavier bottles.

On the other hand, costs will decrease through the reuse of bottles and cartons and the recycling of cans. Savings in these factors are especially significant since containers comprise nearly 50 percent of total costs.

This appendix analyzes the likely direction and comparative magnitude of soft drink bottlers' cost changes under mandatory deposit bottle legislation by weighing the impacts of each of the above changes. Similar analysis applies to brewers' costs. The data are drawn from the experience of Oregon in 1972. Although the level of prices has changed since then, the relative impact of the legislation should be the same.

Table I presents a comparison of costs of returnable and nonreturnable soft drink containers. The components requiring additional costs under the returnable system add 53¢ per case for bottles and 47¢ for cans. The comparable figures for beer are 41¢ per case for bottles and 28¢ for cans. The estimated cost increase for cans is overstated since lines 1, 2 and 4 of the table assume that recyclable cans require the same handling, shipping, and capital expenses as refillable bottles.

The level of increase reflected in Table I is heavily dependent upon labor costs since both the sorting/handling and delivery are labor intensive. Indices of average hourly earnings for production workers show that Oregon labor is more costly for the relevant occupations and therefore the cost increases associated with refillables are probably overstated for Massachusetts.

Table I shows that cost increases would be overshadowed by the savings associated with reuse of containers. Bottles reused seven times would result in savings of 64¢ per case. The cost savings would also be significant for recycled cans. Energy use in producing recycled can stock would be negligible compared to processing bauxite, and capital investment would be only 6 percent of the amount needed to start with virgin ore. Savings of 62¢ per case could be achieved.

As a result of these savings, wholesale costs would be expected to decline upon conversion to reusable containers. Several factors, however, would be needed to realize these savings. The trippage per container would have to exceed the breakeven point, and cans would have to be recycled. If beverages were sold in standard bottles, reusable by several firms, considerable additional savings would result. Compatible legislation among the states of the region would provide additional incentives for standardization of bottles and thus would increase savings. Finally, substantial savings could also be effected by careful transportation planning so that, for example, trucks combine deliveries with picking up empty containers.

APPENDIX TABLE I

Comparative Costs Per Case of Returnable and Nonreturnable Soft Drink Packages Summer 1972

	7-Trip Refillable Bottle (12 oz.)	One-Way Bottle (12 oz.)	One-Metal Aluminum Can (12 oz.) Made From Recycled Metal[1]	Nonreturnable Can (12 oz.)
Higher Costs With Returnables				
1. Sorting and Handling[2]	$0.18	$ —	$0.18	$ —
2. Delivery (including inbound freight)[2]	.50	.33	.50	.29
3. Manufacturing, warehousing, and ingredients[3]	.60	.50	.45	.45
4. Amortized capital costs	.08	—	.08	—
Lower Costs With Returnables				
5. Container costs[4]	.26	.90	.46	1.08
6. Carriers[5]	.12	.13	.13	.13
No Cost Change				
7. Crowns	.04	.04	—	—
Average cost per case: soft drink packages	$1.78	$1.90	$1.80	$1.95
After mark-up[6]	$2.49	$2.69	$2.51	$2.76

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[1] Data in this column in categories 1 and 2 are based on expenses associated with refillable bottles. Since cans are lighter and require less care and space in handling, the costs for cans are therefore overstated.

[2] These categories include significant labor costs, which are higher in Oregon than Massachusetts (U.S. Department of Labor, Bureau of Labor Statistics). They are based on the 95 percent Oregon return rate. These data used for bottle expenses have been criticized by Gudger and Bailes, September 2, 1974 (p. 6) as well as Bingham and Mulligan (pp. 172-3) for overstating the cost disadvantage of refillable bottles over one-way bottles. *A fortiori* one-metal can expenses could be overstated.

[3] The 10¢ differential between refillable and one-way bottles has been criticized as being "excessive." See the statement by C. M. Gudger and J. C. Bailes to the Oregon Legislature, September 12, 1974, p. 6.

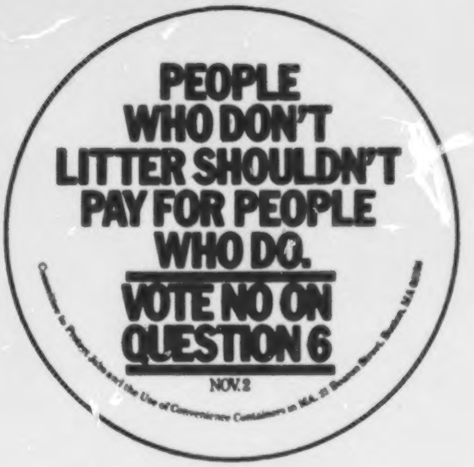
[4] The price per case of refillable bottles is $2.55, the price per case of recycled cans is $.48. The return rate is 85 percent. The deposit is 3¢ per unit. Since soft drink bottlers maintain distinctive bottles, the price of returnable soft drink bottles is more than twice that of returnable beer bottles. We assumed that the 3¢ certified deposit applies, nonetheless. As a result we overstate costs, if anything.

[5] Refillable bottles require heavy duty but reusable cartons. The net cost of these is slightly less than the cost of non-reusable carriers required for one-way bottles.

[6] A mark-up of 41.5 percent was used in these calculations, reflecting current industry patterns. The mark-up represents return to capital and therefore is not applied to item 4.

Source: *New England Economic Indicators*, March 1976, Federal Reserve Bank of Boston, pp. 1-7.

Visual A


PEOPLE
WHO DON'T
LITTER SHOULDN'T
PAY FOR PEOPLE
WHO DO.
VOTE NO ON
QUESTION 6
NOV. 2
Committee to Protect Jobs and the Use of Convenience Containers in MA. 21 Beacon Street, Boston, MA

Student Reading No. 10

Question 6

LAW PROPOSED BY INITIATIVE PETITION

Controls on Bottles and Cans

Do you approve of a law summarized below, *which was disapproved by the House of Representatives on May 3,1976, by a vote of 146-85, and on which no vote was taken by the Senate before May 5, 1976.*

YES ☐

NO ☐

Summary

The proposed act would require every beverage container sold or offered for sale in the Commonwealth to have a refund value of at least five (5) cents, and would prohibit the sale of metal beverage containers with flip-tops. It would apply to containers for beer and other malt beverages and to soft drinks. It would not apply to containers for dairy products or natural fruit juices, nor to containers which are biodegradable.

The act would authorize the Secretary of Environmental Affairs to certify containers as reusable or recyclable. It contains both enforcement and penalty provisions and would take effect on February 1, 1977.

A **YES** vote is a vote to establish the proposed controls on beer and soft drink bottles and cans.

A **NO** vote is a vote against establishing the proposed controls on beer and soft drink bottles and cans.

Full Text of Law

An Act to provide economic incentives for consumers returning beverage bottles and cans.

Be it enacted by the People, and by their Authority:

SECTION 1. Chapter 94 of the General Laws is hereby amended by adding after section 313 the following nine sections:—

Section 314. Definitions for s. 314—s. 322.

In this section and sections three hundred and fifteen to three hundred and twenty-two inclusive, the following definitions shall apply:

(1) "Beverage" means beer and other malt beverages, soda water or similar carbonated soft drinks, and mineral water but does not include dairy products, natural fruit juices, wine or spirits.

(2) "Beverage container" means any sealable bottle, can, jar or carton which is primarily composed of glass, metal, plastic or any combination of those materials and is produced for the purpose of containing a beverage. This definition excludes containers made of biodegradeable material.

(3) "Bottler" means any person bottling, canning or otherwise filling beverage containers for sale to distributors or dealers.

(4) "Consumer" means any person who purchases a beverage in a beverage container for use or consumption with no intent to resell that filled beverage container.

(5) "Dealer" means any person including any operator of a vending machine who engages in the sale of beverages in beverage containers to consumers in this commonwealth.

(6) "Distributor" means any person who engages in the sale of beverages in beverage containers to dealers in the commonwealth including any bottler who engages in such sales.

(7) "Reusable beverage container" means any beverage container so constructed and designed that it is structurally capable of being refilled and resold by a bottler at least four times after its initial use.

Section 315. Refund Value.

Every beverage container with a capacity of less than thirty-two (32) ounces sold or offered for sale in this commonwealth shall have a refund value of not less than five cents; every beverage container sold or offered for sale in this commonwealth with a capacity of thirty-two (32) ounces or more shall have a refund value of not less than ten cents.

Section 316. Deposits; Refunds; Exceptions.

(a) Every consumer shall deposit with the dealer the refund value of each beverage container purchased from that dealer. . . .

Full text of Law is contained in the original document.

Legislative Committee Reports

MAJORITY REPORT

The Committee on Commerce and Labor, after careful and considerate deliberation, has concluded that H. 4200 "ought not to pass."

On March 30, 1976 the Committee held a hearing on an initiative petition H. 4200 along with a number of other bills which would impose mandatory deposits on beer and soft drink containers. The hearing was well attended by both the proponents and opponents of this bill. There was strong environmental support for this legislation, but there was equally strong opposition from both industry and organized labor.

This proposed legislation would require all soft drink and beer containers to carry a minimum refundable deposit after February 1, 1977. A ban would be placed on the sale of cans with detachable metal parts. All stores would be required to accept containers and refund deposits on any brands sold in the store. Distributors would have to accept and pay the refund on their bottles and cans on making delivery to the retail outlet.

Those urging enactment of this measure did so primarily on environmental grounds. It was their contention that H. 4200 would reduce litter and save on energy as a result of encouraging the use of returnable recyclable containers.

Our analysis indicates that H. 4200 could result in a reduction of litter by anywhere from 10% to 30%, at maximum.

In terms of energy, the savings, if any, is not clear but most likely would be minimal.

The Committee believes that extensive unsightly litter is indeed unacceptable and the act of littering must not be tolerated in today's society on environmental as well as health and aesthetic grounds.

The Committee also recognizes the need for development of solid waste disposal systems which, combined with proper recycling activities, will lead to a much better use of our depleted natural resources.

However, it is the opinion of the Committee that H. 4200 is an unacceptable technique for Massachusetts to adopt at this time. It would result in severe adverse economic impact to a positively identifiable group of citizens while producing an ephemeral positive result in the area of reduction in solid waste.

Secretary of Economic Affairs Howard Smith and Commissioner of Commerce and Development John Marino have estimated that as high as 1000 men and women in well paying jobs would lose their work if H. 4200 were enacted.

In addition, there would be an additional adverse impact caused by the necessity of spending millions of dollars to convert facilities to all-returnable containers.

It is obvious that if H. 4200 became law, retailers, bottlers and distributors in border areas within the Commonwealth would suffer.

It is also obvious that if H. 4200 became law, it would create an inconvenience to the consumer.

It is the opinion of the Committee that this legislation would leave 80% of our litter problem unresolved and deals with only a small portion of a very large solid waste and recycling problem.

It is the opinion of the Committee that enactment of H. 4200 would create an extremely high degree of economic dislocation and would further damage industrial perception of the posture of the Commonwealth.

It is the opinion of the Committee that H. 4200 is an approach to a problem which should be taken on a regional view and we recommend that the Governor request the New England Regional Commission to investigate this feasibility.

The Committee therefore concludes that H. 4200 ought not to pass.

The signers of this report state unequivocably that H-4200 OUGHT NOT to pass.

Senator:	*Representatives*
John H. Fitzpatrick	Richard H. Demers
	Bernard D. Flynn
	David J. Swartz
	Royal L. Bolling
	Bruce E. Wetherbee
	Norris W. Harris
	Richard F. Finnigan
	Robert M. Penta
	Andrew Collaro
	Edward Shortell
	O. Roland Orlandi
	Raymond A. Jordan

MINORITY REPORT

The undersigned dissent from the majority report of the Joint Legislative Committee on Commerce and Labor's adverse report relative to H. 4200, the initiative petition, which, in effect, would ban the use of non-returnable bottles and cans, for the following reasons:

Although there is a possible job loss cited by the opponents, it is our judgement that the new jobs resulting from such legislation would offset the potential job loss. Therefore, no significant job increase or decrease would occur by the passage of this legislation. It is likely that the advent of returnable containers would increase the number of jobs in the transportation, handling, cleaning and recycling of these containers.

Secondly, the further continuance and encouragement of a public "throw-away" policy relative to our manufactured products is counterproductive to the long-range economic interests of the Commonwealth as well as the nation as a whole.

Thirdly, this legislation would most likely increase the number of domestic brewers and/or bottlers since the long distance shipping of returnables to out-of-state brewers and bottlers would be inefficient and uneconomical.

Finally, a crucial and decisive factor in support of H. 4200 is the effect that this legislation will have in lessening the solid waste problems of the individual communities and the unsightly litter problem on our state's highways.

The undersigned endorse this legislation with the strong recommendation that the Legislature should also enact appropriate legislation granting relief to those affected industries in order to alleviate any possible economic dislocations resulting from the passage of this amendment.

Senators:
Allan R. McKinnon
Edward L. Burke
Robert A. Hall

MINORITY REPORT

Article 48 of the Massachusetts Constitution establishes the initiative petition process as a means for the people of the Commonwealth to achieve constructive change through direct action. The General Court must respond to such petitions within certain easily understandable limits.

If that response proves unsatisfactory, under Article 48 the people can make the ultimate decision. If the General Court rejects an intiative petition, the result is democratic in the purest sense of the word; the decision reverts to the people.

Although the initiative petition process is of necessity somewhat inflexible, the Legislature has been accorded several opportunities to forestall any possible problems stemming from that constitutionally mandated inflexibility. Unfortunately, the General Court has revealed an inflexibility of its own far greater than that of the initiative petition process. The General Court has repeatedly refused to consider enacting any of several other proposals.

The initiative petition's chief sponsor filed a duplicate of the initiative petition in amendable bill form (now numbered H. 3544) explicity intended as a means for a negotiated and constructive legislative response to the actual petition. This bill has to date produced no such response. The bill has received an adverse response from the Committee on Commerce and Labor by being referred to study by a Commission.

Eight other bills, which in one way or another would deal with beverage containers, have also been referred to a study although similar proposals have been filed in the Legislature and been the subject of public hearings by this or other committees during the past several years.

Apparently, the Committee's majority will accept no major provision of the initiative petition. Apparently, the Committee's majority would respond with approbation only to the complete abandonment of effective control of litter proliferation and resource profligacy.

The Committee has chosen to reject every one of the several proposals. We earnestly hope that the General Court will respond more constructively, either by enacting House Bill #4200 or by enacting some version of House Bill #3544 before May 5th.

The initiative petition would require that all malt beverages and soft drinks be sold with a container refund value of not less than five cents. The petition does not mandate refillable bottles as some opponents would suggest, but rather establishes an economic incentive to return and either re-use or recycle beverage containers. We submit that should this petition be enacted, any adverse economic effect on production of cans and bottles would be substantially less than that resulting from the enactment of other regulatory statutes in other jurisdictions.

The question of economic impact should also be examined in the brewing and bottling sectors and at the wholesale and retail sales levels. It is alleged by some that local bottlers would be adversely affected by enactment of this petition. We are convinced that the proliferation of the non-returnable container has been a significant contributing factor in the decline of numbers of breweries and bottling plants in the commonwealth and the concurrent decline in numbers of persons employed in these facilities. Massachusetts is a net importer of beverages and suffers a negative economic balance as a result.

We believe that the enactment of this petition might well help to correct the economic balance by encouraging the resurgence of local brewers and bottlers and expanding local job opportunities.

Similarly, we believe that additional employment would be created in transportation and sales facilities, although not at a cost which would negate the savings enjoyed by consumers from the lower cost of using refillable containers in a larger percentage of the beverage market. New employment opportunities can also be projected in the reclaiming and processing of used metal, glass and plastic.

Beyond the more obvious effects which are measurable economically, other positive results of enacting this petition would be seen in a reduction of roadside litter, reduction in the bulk and weight of residential rubbish incinerated or buried, and a lessening of the rate at which we are expending energy and depleting our limited supply of irreplaceable natural resources.

We feel strongly that reducing the quantity of cans and bottles entering the waste stream will significantly reduce disposal costs, energy consumption, environmental degradation and the use of land for landfills. Why should the number of beverage containers be allowed to multiply when certain types can be re-used or recycled? Why should unnecessary costs be incurred for solid waste disposal and cleanup? Why should the local citizen through his property taxes needlessly subsidize the throw-away container? We believe that the provisions of House Bill #4200 provide an appropriate means of restricting beverage containers from the waste stream and encouraging their recovery for recycling or re-use.

It has been shown clearly over the years that the polluter of our air, the abuser of our waters and the excessive user of energy must be constrained by legislative action for the public good. We believe that the provisions of this petition are appropriate constraints on non-returnable containers, an effluent which is polluting our land, wasting our resources and consuming energy without commensurate social rewards.

The General Court has the opportunity to act favorably in this session on any recommendation of the Special Commission on non-returnable bottles, but we believe that the record of that Commission to date makes any favorable action an unlikely possibility.

Alternatively, the General Court, should House Bill #4200 be approved by the people in November, may amend any provision, defer the implementation date or take such other action as may in its wisdom be considered appropriate.

In our view, House Bill #4200 merits enactment. We regret that the General Court has to date been inflexible in its response to similar proposals, and we hope that each branch will soon see fit to respond constructively and affirmatively when the matter is voted on by roll call.

The signers of this report state unequivocably that House Bill #4200 OUGHT to pass.

Senator Ronald C. MacKenzie
Representative Nils L. Nordberg

Student Reading No. 11

Oregon bottle bill popular

Litter reduced, store costs up

By Dean Smith
Special to The Globe

PORTLAND, Ore.—Four years after its enactment, the Oregon bottle bill remains so popular here that its opponents say they are afraid to voice their objections publicly.

"We're disappointed," says one disgruntled beer distributor, "because we're having to stick our heads in the sand to say it's working, when it hasn't."

The split in attitudes about the law, which placed a deposit on all beer and carbonated soft drink containers, has been one of the consistent threads in a highly emotional issue.

Consistent also has been the inability of proponents or opponents to unravel the complex ramifications of the law to prove that it either is working or has failed.

"I don't think anybody really knows the total impact the law has on us today," says Chris Maletis III, president of the Oregon Beer and Wine Distributors Assn. "The facts have been manipulated."

Nevertheless, state government and Oregon's political leaders remain solidly behind the law, which they claim has significantly reduced roadside litter, resulted in a net increase in jobs and saved enough energy to heat 12,000 homes annually.

Gov. Bob Straub says he is a "very enthusiastic supporter" of the bill, as was former Gov. Tom McCall, who is appearing in Massachusetts, Michigan and Colorado this year to support ballot measures pending in those states.

No new data has been compiled on the law since reports three years ago showed a 39 percent decline in roadside litter after the law took effect on Oct. 1, 1972.

A controversial, state-funded report by Applied Design Systems, Inc., confirmed in 1975 that the law reduced litter, but said it came about at a major cost to industry.

"We see no reason to further justify the bill," said one governor's aide, "because 85-90 percent of the public want it."

Several legislators are seeking to also require a deposit on wine containers.

The law requires that retailers charge a minimum two cents on certified containers (such as the 11-ounce "stubbie" bottle) used by more than one manufacturer, and five cents on all other containers. It also outlawed removable "pull tabs" on beverage cans.

One of the first impacts of the bill was to reduce the canned beverage trade, and only recently have cans shown a slow return into the marketplace.

Reynolds Metals Co., which says it lost 90 percent of its can business in Oregon, admits that the all-aluminum can "has made a remarkable recovery in recent months."

Andrew McCutcheon, Reynolds public relations director, said Reynolds would have to quit the can business entirely if a national bottle bill was enacted.

While some of the law's impacts are hidden from public view because highly-competitive beverage industry officials refuse to release business data, these other effects are known:

—Grocers have had to accept the burden of handling, sorting and storing empties without compensation. Fred MacRae, Oregon division manager for Safeway Stores, says most outlets added 30 to 42 additional employee hours each week. In addition, he says, retailers now stock only fast-moving beverage items because of the "headaches" involved.

—Beer distributors claim that the law has increased their cost of doing business by 25 percent. David Whitbread, executive secretary of the distributors association, notes that most firms have invested in larger trucks which must "go out one-quarter empty" to handle returned containers. Beer prices, interestingly, have remained comparable to those in neighboring Washington, which has no deposit law.

—Employment has increased slightly under the bill, with a net job increase of 50 to 100, according to the ADS report. However, one canning plant shut down completely and the Continental Can Co. in Portland faced a $150,000 loss from unsold beverage cans earmarked for a downstate firm.

—Beer sales, expected to suffer, did not, and malt beverage consumption in Oregon has continued to grow approximately 17 percent each year. Anheuser-Busch, brewers of Budweiser, was among the out-of-state brewers expected to lose a foothold in the state, but government tabulations show a gain for the brewery from about 5 percent of the market in 1972 to a strong 14 percent in 1976. Prior to the law, 44 beer brands were sold in Oregon, but only 25 now are available.

—Heavy capital investments continue to be necessary in the soft drink industry, which has shown almost no sales growth in four years. A Coca-Cola bottler says he had to hire about 25 percent more employees and had to increase warehouse space. "Sales in Washington and California are growing like crazy and here we sit like a berg between them with hardly any gains," the official said. Soft drink prices now are higher in Oregon than neighboring states.

—Oregon's largest glass container manufacturer, Owens-Illinois, said it had to remove two production lines at the cost of 100 jobs. Dick Hughes, plant manager, said the Oregon bill has had a "deteriorating effect on our ability to be an economic force in Oregon."

A model litter control act introduced in Washington also in 1972 has been compared with the Oregon effort for its litter reducing effects. The act instituted a tax on litter-producing industries to fund a $600,000 annual antilitter campaign.

Washington Gov. Dan Evans announced this month that the program resulted in a 66 percent decline in total litter over a four-year period. The program involves a major advertising, volunteer cleanup and educational campaign.

In addition, Washington spent $480,000 to pick up litter along state highways in fiscal year 1975-76. Oregon spent about $600,000 for the same period.

Oregon bottle bill supporters take a dim view of the Washington results, however.

The Washington approach, says Janet McLennan, Gov. Straub's natural resource assistant, "is just a scheme to tax people to hire others to go pick up garbage."

"We could preach 'don't litter' or litter the highways with signs that say 'don't litter,' but it's very difficult to teach citizenship in those terms," she said. "Our program of self-generating enforcement works because economics dictates that it work."

Since Oregon passed its bill, virtually every other state has entertained similar proposals, but only Vermont has adopted a similar law.

Nevertheless, Don Waggoner, former president of the Oregon Environmental Council and a vocal bottle bill supporter, is not discouraged.

"I think it's just a matter of time," Waggoner insists. "The Federal Energy Administration recently favored a national bottle bill and I think once the energy consequences are known and become more important we'll find more acceptance."

Waggoner notes that industry lobbyists have spent enormous sums to defeat proposals around the country. He said the industry will spend $700,000 in Massachusetts alone to oppose the ballot measure.

Recycling projects in Oregon have lost some revenue with less metal and glass in the solid waste stream, but many now have contracts with beverage distributors to handle returns, the state Department of Environmental Quality reports.

"We're happy to see the volume drop," says Jerry Powell, president of the Portland Recycling Team, "because environmentally it's better to see the bottle refilled than remelted."

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Student Reading No. 12

IF THE BOTTLE BILL PASSES, IT COULD COST YOUR FAMILY OVER $100* A YEAR.

*$100 per year for the average family based on consumption of 8 oz. cans of soft drink (1975 Sales Survey of the Soft Drink Industry, published by the National Soft Drink Association); consumption of beer based on 12 oz. cans (1975 Brewers Almanac); additional total cost per unit/case based on Vermont Study (U.S. Environmental Protection Agency).

SAVE OVER $100 A YEAR IN BOTTLES AND CANS

VOTE NO ON QUESTION 6

?

THE CASE AGAINST THE BOTTLE BILL

On November 2, the people of Massachusetts will vote on Question 6.

The Bottle Bill.

On the surface, it sounds like a good idea. But when you pop it open, it's a Pandora's bottle of problems.

How the Bottle Bill could break you.

For openers, you'll have to pay a deposit of at least 5¢ on every can or bottle of soft drink, beer, or non-natural fruit drink you buy. And the price goes up to 10¢ for cans and bottles that are 32 oz. or more.

It's going to be tough to swallow.

If you don't bring clean cans and bottles back to the store, you'll lose that deposit.

And even if you carry through on your end of the deal, the Bottle Bill isn't a money-back guarantee. Because somebody will have to pay more for the handling, storing, and processing of empties. And who do you think that will be?

You.

Now if you have to pay more, you'll buy less. But in order to survive, stores may have to raise their prices further.

The vicious cycle will drive even more businesses out of Massachusetts, taking with them jobs and paychecks. And leaving behind the promise of higher taxes.

Now if somebody asked if your family would care to pour out an extra $100 a year on beverages in bottles and cans, or see possibly thousands of jobs lost in this state, what would you say?

No.

The Bottle Bill will get you coming and going.

If you have to return your beverage containers to get your deposit back, it's going to amount to a pain in the can.

And there'll be many unhappy returns for storekeepers, who'll be caught in the middle with storage and handling problems – and probably health code problems, too.

If somebody asked if you'd care to carry back bags and bags of empty cans and bottles of all sizes – all the way up to 64-oz. soda bottles – then stand in line till some guy with problems of his own gave you your deposit back, what would you say?

No.

Dispose of the Bottle Bill properly.

Surveys have shown that you can't catch litterbugs with a Bottle Bill.

In fact, the Bottle Bill hasn't been a smashing success in the two states where it was adopted.

In one state, roadside litter of beverage-related material was *up* two years after the bill was enacted. In another, much of the population sees no change in the litter situation, and even more want the bill repealed or modified.

It would be more efficient to enforce litter laws and fines we already have.

Because if $50 won't stop them, a 5¢ or 10¢ deposit certainly won't.

Finally, those empties you bring back may very well be carted away to a central dumping place.

Because Question 6 doesn't stipulate recycling.

If you're concerned about the environment, you're better off taking your trash to recycling centers. Just as people have been doing *without* compulsory legislation.

So, if somebody asked you, a person who doesn't litter, to pick up a $100 a year tab for people who do, what would you say?

No.

Don't wait till you have to pay the Bottle Bill.

The sad truth is, you'll pay through the mouth if Question 6 passes.

You'll pay for the litter of others. You'll pay with additional inconvenience. And most of all, you'll pay more at the cash register for beverage bottles and cans.

This is one time you know what a wrong vote could cost your family before you even vote on it. Over $100 a year.

If somebody asked if you'd care to stop the whole mess before it's even opened, what would you say?

NOV. 2 **VOTE NO ON QUESTION 6** NOV. 2

Reprinted by permission from the Committee to Protect Jobs and the Use of Convenience Containers in Massachusetts.

Student Reading No. 13

Q. and A. on the bottle bill

By Lise Bang-Jensen
Special to The Globe

If approved by voters next Tuesday, Question 6 could alter the habits of all beer and soda drinkers in Massachusetts.

Here are answers to questions frequently asked about the bottle bill:

Q. What is the bottle bill?

A. The measure would require payment of a refundable deposit of 5 cents on all beer and soft drink containers under 32 ounces and 10 cents for containers 32 ounces or larger. You get your deposit back when you return your bottles and cans.

Q. Does that mean cans, too?

A. Yes. The law would also outlaw the use of detachable tabs or fliptops on cans, which have caused injuries and, in some cases, death to people and animals who accidentally swallow them. Can manufacturers now market several models of easy-to-open cans with nondetachable lids in other states.

Q. What is the point of lugging all those bottles and cans back to the store?

A. By encouraging industry through the deposit system to use bottles which can be refilled many times, the bottle bill will reduce beverage container litter, save energy and resources, alleviate the state's solid waste problem and reduce accidents and flat tires, say proponents. Partisans disagree about how much of an impact the bottle bill will have in these areas. They disagree more strongly on the impact on jobs and beverage prices.

Q. Are people really going to go to all that trouble merely to get back their 5- or 10-cent deposit?

A. That's a question each person has to answer for himself. True, a nickel doesn't go far these days, but it seems to be economic incentive to Vermont and Oregon residents, who return between 90 and 95 percent of their bottles and cans.

Q. Isn't this all rather old-fashioned?

A. You might say so. In 1958, 98 percent of all soft drinks and 58 percent of the beer sold in the United States was packaged in returnable bottles. Today only 4 percent of the Massachusetts market is refillable bottles; most of these are sold in bars.

Q. Why can't you refill a non-returnable bottle?

A. Two-way or returnable bottles are twice as heavy as "no deposit, no return" bottles to avoid breakage in their numerous trips between bottler and the consumer. Nationally, the average returnable bottle is refilled 15 times.

Q. Will cans be refilled?

A. No. But aluminum and steel cans can be shredded and metals can be used for new cans or other products. There is no provision in the proposed law, however, to mandate such a recycling program.

Q. What's it all going to cost?

A. That depends on whom you ask. Proponents say prices will stay the same or go down, because consumers will not have to pay for bottles and cans they now discard. They say beer and soda in refillable bottles is now cheaper in Massachusetts and that the Federal Environmental Protection Agency (EPA) found beverage prices lower in Vermont than in Massachusetts.

But opponents predict prices will rise, because of the added costs of producing, handling and transporting refillable bottles. Added costs for manufacturers, bottlers and retailers will be passed on in higher prices, they say.

Q. Will the bottle bill put people out of work?

A. That also depends on whom you ask. Industry says the bottle bill may threaten 966 jobs in bottle, can and corrugated box factories in Massachusetts, as well as jobs in other states. People working in small bottling plants may lose their jobs if their employers cannot raise the capital to retool their plants to handle returnable bottles.

But bottle bill supporters say it will create jobs. They quote a study by the Federal Reserve Bank of Boston which says that job losses caused by the bottle bill will be more than offset by the creation of up to 1380 jobs in trucking, handling and washing of containers. A recent study by the Federal Energy Administration says that a national bottle bill would create more than 117,000 jobs.

How proposal is worded on ballot

The following text will appear on the ballot next Tuesday:

Do you approve of a law summarized below, which was disapproved by the House of Representatives May 3, 1976, by a vote of 146 to 85, and on which no vote was taken by the Senate before May 5, 1976?

The proposed act would require every beverage container sold or offered for sale in the Commonwealth to have a refund value of at least 5 cents, and would prohibit the sale of metal beverage containers with fliptops. It would apply to containers for beer and other malt beverages and to soft drinks. It would not apply to containers for dairy products or natural fruit juice, nor to containers which are biodegradable.

This act would authorize the Secretary of Environmental Affairs to certify containers as reusable or recyclable. It contains both enforcement and penalty provisions and would take effect on Feb. 1, 1977.

A YES vote is a vote to establish the proposed controls on beer and soft drink bottles and cans.

A NO vote is a vote against establishing the proposed controls on beer and soft drink bottles and cans.

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Opponents spend nearly $1m to defeat it

By Lise Bang-Jensen
Special to The Globe

Since Labor Day, opponents of the ballot Question 6 have spent close to $1 million in an attempt to persuade Massachusetts voters that the bottle bill will cost them, perhaps as much as $100 per year.

But supporters disagree, saying that consumers will save on beer and soft drinks if voters on Tuesday approve the bottle bill, which would require a refundable deposit of at least 5 cents on beverage containers.

Ultimately, consumers may ignore cost arguments on both sides and base their decision on the impact they perceive the bill would have on litter and solid waste reduction, energy and resource consumption, convenience, jobs and the state's economy.

But opponents have made the question of price the principal thrust in their campaign.

Generally, consumers now pay less for beverages sold in returnable bottles than those sold in nonreturnable bottles and cans in Massachusetts stores that carry returnable bottles.

For example, in a Blanchard's liquor store in Boston, beer is cheapest in returnable bottles. A case of Pabst beer (12 ounce containers) cost $5.79 in cans, $5.59 in nonreturnable bottles, and $5.05 in returnable bottles, plus the $1.50 refundable deposit.

However, returnable bottles account for less than 4 percent of the total beer and soda sales in Massachusetts. Industry argues that all prices will rise if 100 percent of the market is packaged in bottles and cans consumers must return to reclaim their deposits.

Opponents of the bottle bill argue that the law would cost the beverage and bottling industries millions of dollars to retool their plants to handle returnable bottles.

Those added costs, along with additional costs for retail stores, which would have to handle, sort and store returned containers, would be passed on to consumers in higher prices, according to industry arguments.

Opposition advertisements on billboards and in super markets and liquor stores warn: "If the bottle bill passes, it could cost your family over $100 a year."

But that claim, based on projected handling costs and an assumption that 57 percent of Massachusetts consumers will throw out bottles and cans, forfeiting their deposits, has been labeled "false and misleading advertising" by the US Environmental Protection Agency.

Most consumers, supporters of the bottle bill argue, will return containers because every nickel and dime counts when people are trying to stretch food budgets.

They say the cost of beer and soft drinks will decline—or stay the same, because consumers will not have to pay the cost of packaging that they now throw away. Consumers will save money because it costs less to fill one bottle 15 times (the national average for returnable bottles) than 15 nonreturnable bottles one time. The saving will more than offset increased handling costs, according to the proponents.

To support their predictions of lower prices, they cite soft drink advertisements, such as Coca-Cola in Virginia urging consumers to buy Coke in cheaper, returnable bottles.

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Student Reading No. 14

The Food Stores of Massachusetts want to talk with you about the "Bottle Bill."

We believe Proposal #6 will be detrimental to our customers in a number of ways. We have an obligation to give our views on the question since we carry a major responsibility for the price, variety and sanitation of the product we sell.

Higher prices.

Beverage prices have gone up in the only 2 states to adopt this scheme and they are higher than prices in neighboring states—even before the deposit charge.

Loss of choice.

Customers prefer convenience containers by a very wide margin. People should be allowed to spend their money for convenience if they wish. The Oregon system has driven small bottlers and private brands out of existence. Cans have almost disappeared in Vermont and the wait at the checkout has become longer.

Sanitation problems.

Massachusetts has 33 times as many people per square mile as Oregon. Under such crowded conditions, the accumulation of unwashed bottles and cans will represent a real health hazard. Beverage consumption is almost three times greater than in 1960 when non-returnables became important. Today the sanitation problem will be several times greater than it was 16 years ago.

Even more important . . . there will be a definite loss of manufacturing jobs. The Secretary of Economic Affairs has estimated that as many as one thousand good paying, head of family jobs would be eliminated. Statistics can be arranged to claim that these losses might eventually be balanced by low-paying jobs in handling and washing empty bottles together with part-time jobs in supermarkets. This is not a good exchange for Massachusetts. We need factories and manufacturing jobs. **And after all this . . .**

The litter problem will remain.

The officially accepted report of the state of Oregon states that total highway litter was reduced by only 11%. Beverage containers are less than one-third of all litter and only a part of container litter is affected. We all want a solution to the litter problem. The best approach to the total problem was taken by the State of Washington. Instead of following the Oregon plan, Washington put in a down-to-earth program to control all litter. Their highways are the cleanest in the United States – with no loss of jobs or other economic dislocations.

All of us are concerned about resources. We need a broad and complete program to recycle everything possible, not just beverage containers that amount to only a small part of all solid waste (7%). Question #6 makes no provision whatsoever for recycling and gives a false promise that you can handle a major problem by working on one tiny part of it.

We want you to tell us how we should run our stores. We would like to operate them with the greatest variety and choice, the highest level of service and sanitation and the most reasonable prices. Experience from Vermont and Oregon tells us that these things suffer under the bottle proposal and no other states have followed this scheme.

These are our thoughts.

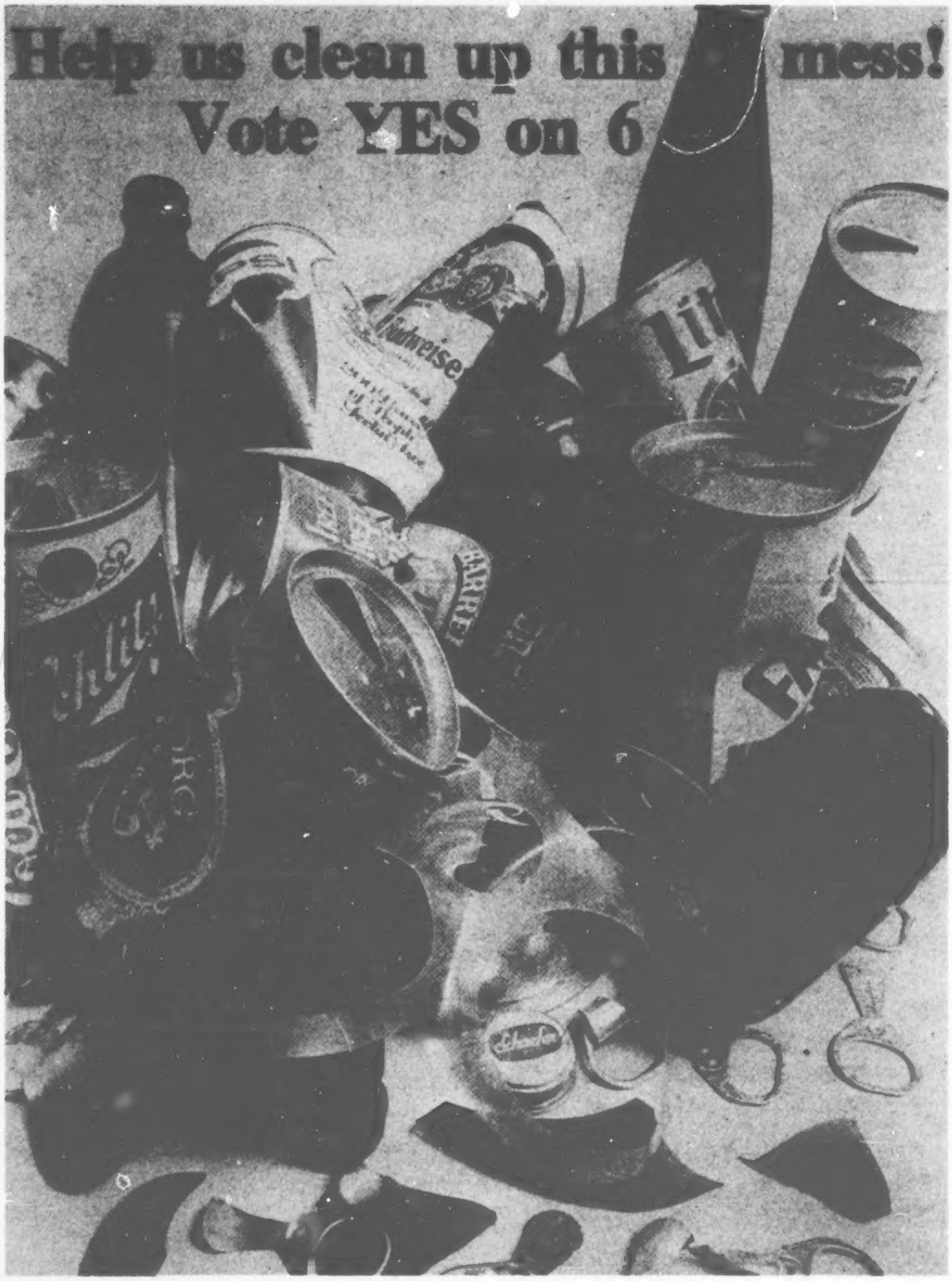
The decision is yours!

Respectfully,

Massachusetts Retail Food Association.

Representing 2000 Massachusetts food stores, including all the chains, the supermarkets and over one thousand independent grocers.
89 Franklin St., Boston 02110

Student Reading No. 15


Help us clean up this mess!
Vote YES on 6

Reprinted by permission of the Committee for a Massachusetts Bottle Bill (1976).

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We've got a $5,000,000 litter problem on our hands!

Do you enjoy the crumpled cans, dangerous flip tops and broken bottles that litter your yards, streets, parks, beaches, and roadsides? Do you know that by volume littered bottles and cans make up 70% of the trash that covers Massachusetts? And that every year, we spend over $5,000,000 in tax dollars to pick up this awful mess?

Here's how Question #6 — the Mass. Bottle Bill Solves these problems at no cost to you.

When you vote Yes on 6 and make the Mass. Bottle Bill law, containers used to sell beer, carbonated soft drinks and mineral water will be returnable for at least a nickel refund. The bill also prohibits the use of detachable flip-tops that have become such a dangerous nuisance.

When you buy beer or soda, you'll pay a deposit of 5c on every container under a quart . . . 10c on every container of a quart or over. This deposit by law must be returned to you when you return the container at your convenience; simple, isn't it? Just like it used to be in the good old days.

IMPORTANT! The bottle bill simply does not apply to dairy products, natural or non-carbonated fruit juices, wine and whiskey. Nor does it apply to containers like wax paper cartons that fall apart naturally. And you'll pay *no deposit* on purchases like a glass jar of mayonnaise or a can of soup.

How does the Bottle Bill work?

"Beautifully!" say the people of Vermont and Oregon. How much difference can bringing back returnable containers make? Well, the citizens of Oregon voted for a Bottle Bill in 1972; today, their bottle-can litter is down 83% and just one year after passing a Bottle Bill, Vermonters have seen the litter along their highways cut 76%!

And returnable containers pay their own litter pick-up costs. **Suppose some careless person leaves a mess of returnables lying around. That 5c-10c deposit guarantees they'll be picked up and returned by the local kids, the best litter pick-up team in town. And their services cost you nothing.**

WARNING!

The big, out-of-state container manufacturers and their friends will do their darndest to defeat our Bottle Bill. Why? Because throw-away containers help them grow bigger and richer at our expense.

Back in the Thirties, there were 700 beer companies in America. Today 75% of all beer sales are controlled by 8 giant companies. You get the picture. Bigger sales split up among fewer companies with fewer plants and fewer employees means bigger profits for the Big Boys.

And all this was made possible by a one-way sales system built on throw-aways. Everything goes out. Nothing but money comes back. The consumer pays for all the many costs of the throw-aways at the other end ... ***including the cost of the container itself.*** **Which means the container manufacturers and their friends get the profits, conveniently leaving us with the litter.**

The Beverage Biggies Hide Behind a Front Organization

A front organization, called the Committee to Protect Jobs and the Use of Convenience Containers in Massachusetts, has been formed. They will spend $1-2 million to fight the Mass. Bottle Bill. Where did they get that kind of money? Most of it from the out-of-state container manufacturers and their friends who spend an estimated twenty million to defeat Bottle bills all over the U.S. and protect their precious throw-aways. And they'll try to beat us out of our Bottle Bill right here in Massachusetts, too, unless you stop them.

When you hear *their* anti-Bottle Bill baloney don't you believe a word of it!

The Bottle Bill could cost your family over $100 a year.
BALONEY! There's no good reason why the Bottle Bill should increase the price of your favorite beer or soft drink. The Bottle Bill won't cost you a nickel ... after all, it's refundable. In fact, the respected Federal Reserve Bank of Boston reports that the cost of beer and soft drinks should decline once the Mass. Bottle Bill is in operation.

The Bottle Bill will cost many jobs in Massachusetts.
BALONEY! The Mass Bottle Bill will create jobs in Massachustts for Massachusetts workers. The Federal Reserve Bank of Boston reports that the Mass. Bottle Bill could create as many as 1,380 new jobs with a payroll increase as high as $10,000,000.

Tougher enforcement of litter laws is what we need, not a Bottle Bill.
BALONEY! We need tough enforcement of all litter laws, including the Massachusetts Bottle Bill, if we are going to get out of this mess.

YOU KNOW EVERY LITTER BIT HURTS.
MAKE YOUR VOTE HELP THIS ELECTION DAY.
VOTE FOR THE MASSACHUSETTS BOTTLE BILL. VOTE YES ON 6.

VOTE YES ON 6

WE NEED MONEY TO WIN. SEND CHECKS TO COMMITTEE FOR A MASSACHUSETTS BOTTLE BILL, 120 BOYLSTON ST., ROOM 320, BOSTON, MA 02116

The following groups and officials have endorsed the Massachusetts Bottle Bill:

Association of Massachusetts Consumers
Boston City Council
Boston 200
Edward W. Brooke, Senator
Citizens for Participation in Political Action (CPPAX)
Cooperative Metropolitan Ministries
Michael S. Dukakis, Governor
Friends of the Earth
Gloucester City Council
Michael Harrington, United States Representative
Junior League of Boston
James F. Kelley, Chairman, State Senate Ways and Means Committee
Edward M. Kennedy, Senator
League of Women Voters of Massachusetts
Marlborough City Council
Massachusetts Association of Conservation Commissions
Massachusetts Audubon Society
Massachusetts Farm Bureau Federation
Massachusetts Forest and Park Association
Massachusetts Public Interest Research Group (Mass PIRG)
Massachusetts Roadside Council
Massachusetts Selectmen's Association
Massachusetts Sierra Club
Massachusetts State Federation of Women's Clubs, Inc.
Massachusetts Wildlife Federation
Evelyn F. Murphy, Secretary Office of Environmental Affairs
New England Trail Rider's Association
Francis W. Sargent, former Governor
Springfield City Council

This pamphlet was produced by the Committee for a Massachusetts Bottle Bill. More information can be obtained from the Committee at
120 Boylston St., Room 320, Boston, Massachusetts 02116 (423-1796)

Student Reading No. 16

POLITICAL CIRCUIT
By CAROL SURKIN

Bottle Bill distortion hit by Murphy

Massachusetts Environmental Secretary Evelyn Murphy has joined the protest against the distorted advertising being used to defeat Question 6, the Bottle Bill, on the election ballot this Tuesday.

Murphy said yesterday she believed that union leaders here have been caught in a bind by the opponents of the Bottle Bill. The Massachusetts State Labor Council, AFL-CIO, opposes Question 6 on the grounds that it would cut employment in Massachusetts and increase consumer costs. The steel workers nationally oppose the Bottle Bill concept. Murphy said she thought local labor leaders were trying to support their brother steelworkers, while not having strong opposition themselves to Question 6.

An economist by training, Murphy argued that all available data shows the bottle bill would increase jobs and cut consumers costs. She fears the bottle bill will be defeated because of unjustified threats placed in the minds of the labor population in Massachusetts.

"When I look at that Federal Reserve (bank) study, when I see the union jobs coming out of it—the bottle washers, handlers, truck drivers, I cannot understand how the union can be opposed," Murphy said. "If they are serious, it would seem they are being duped."

Question 6, if passed by the voters, would make bottles and cans returnable in Massachusetts. The use of flip-top cans in the state would be ended. The bottle bill is designed to eliminate litter created by throwaways. Also, the law would cut waste of energy and materials involved in the throwaway system.

Vermont and Oregon have laws against disposable beverage containers. And the results in both states have meant savings for consumers and a dramatic decline in litter. A study conducted by the US Environmental Protection Agency in Vermont showed a 67 percent decrease in bottle and can litter.

The opposition to Question 6 comes largely from beer interests and soft drink producers as well. The anti-bottle bill organization is the Committee to Protect Jobs and Use of Convenience Containers. It is run out of the Boston offices of the Massachusetts Wholesalers of Malt Beverages. Over $1.3 million is pouring into the effort to defeat Question 6.

The opposition operates largely with scare tactics, not supported by facts. Congress has been considering Federal legislation, to return the nation to a reusable bottle and can system. Business interests do not want to undertake conversion to a returnable system. So they are fighting the bottle bill here and also nationally.

Murphy said that she has repeatedly asked to see data detailing the claims that jobs will be lost if Question 6 passes. She said as far as she can determine no analysis has been conducted by the opponents of Question 6. But even without analysis, the opponents have pulled in official union support and that could mean a large labor vote against Question 6.

James Loughlin, Secretary-treasurer of the Massachusetts State Labor Council claims the bottle bill "would hurt so many people—machinists, steel workers, labelers—you can't even count how many. Of course we oppose it."

In fact there have been two studies conducted, which calculate that jobs will increase with a returnable bottle and can system. In addition, the studies show there will be significant consumer savings under the bottle bill (which requires deposits for returnables).

The Federal Reserve Study, released here last March, details the benefits of the bottle bill, including more jobs—not fewer jobs. The Federal Reserve figures also showed that consumer prices declined in Oregon and Vermont after those states eliminated throwaways.

Just recently the Federal Energy Agency in Washington released the study conducted for it by an independent consulting firm on the national impact of a reusable container system.

This study showed that a system of reusable bottles and cans increases labor forces. (That is probably why business opposes it.) This survey estimated nearly 120,000 new jobs would be created nationally by a Federal ban on throwaways. It also calculated that consumers would save over $1.8 million annually.

The main advertising against Question 6 inaccurately implies that the US Environmental Protection Agency is against the bottle bill. EPA Regional Administrator John A. S. McGlennon has officially protested the advertising and asked that EPA's name be eliminated from ads opposing Question 6. McGlennon is in favor of the bottle bill.

All in all, Massachusetts voters--workers and consumers—are getting a lot of bad information and scare tactics. If they were given the truth, they would vote "yes" on Question 6.

Carol Surkin is a Globe political columnist.

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